House of Commons

Work and Pensions Committee

Oral evidence: Universal Credit: the wait for first payment, HC 204

Wednesday 2 September 2020

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Watch the meeting

Members present: Stephen Timms (Chair); Debbie Abrahams; Shaun Bailey; Steve McCabe; Nigel Mills; Selaine Saxby; Dr Ben Spencer; Chris Stephens; Sir Desmond Swayne.

Questions 286 - 363

Witnesses

I: Gareth Davies, Comptroller and Auditor General at the National Audit Office, and Joshua Reddaway, Director, Work and Pensions, Value for Money, at the National Audit Office.

II: Jonathan Davidson, Executive Director of Supervision – Retail and Authorisations - at the Financial Conduct Authority, and Nisha Arora, Director of Consumer and Retail Policy at the Financial Conduct Authority.

Examination of Witnesses

Witnesses: Gareth Davies and Joshua Reddaway.

Q286 **Chair:** Welcome to this meeting of the Work and Pensions Select Committee, and a particularly warm welcome to our two witnesses who are in the committee room with us. Please introduce yourselves for the record.

Gareth Davies: I am Gareth Davies. I am the Comptroller and Auditor General, which means I am the head of the National Audit Office and, therefore, responsible for all of our work on value for money reviews of Government Departments and auditing Government accounts.

Joshua Reddaway: I am Joshua Reddaway. I am the NAO Director for Work and Pensions, Value for Money.

Q287 **Chair:** Thank you both very much. We have quite a number of questions to raise with you. We are very grateful for your report on "Universal Credit: getting to first payment", which marries well with the inquiry that we are now coming to the end of. I will raise the first questions with you. Your report found that the wait for a first payment can exacerbate people's existing financial difficulties. How do you think the Department should use your work to reduce the impact of the wait on people's financial problems?

Gareth Davies: I will begin and I will ask Joshua to add. As the lead author of the report, Joshua has more detail to draw on.

The key point on the impact of the wait is that it is a design feature of Universal Credit, as we try to explain in the report. It is not an unintended side effect; it is a central feature of the way the benefit is designed. The consequences of that are, very importantly, timeliness of claim.

We definitely identified that one of the key issues is that people delay claiming for all sorts of reasons, and that is one source of stress. I think the key finding, though, was that—maybe not surprisingly—people are making their first claim at a time of financial stress. They arrive into this process already dealing with significant financial pressure and, without good advice, may be making claims too late for the benefit to have maximum impact.

The impact of the wait is mitigated by the advances, which I am sure we will come on to talk about in some detail, but we think the way the advance plays out also has an impact because of what is currently a reasonably aggressive collection of that advance over the first payments of Universal Credit.

It is a combination of these factors that has that impact. That is why our recommendations focus on asking the Department to work with others to look at the quality of advice that is available to claimants so that they time their claims in the way that makes most sense in their personal circumstances. It is not a straightforward message that the earlier the claim, the better, because there may be an impact on legacy benefits that needs to be taken into account. It is looking at the quality of advice and then understanding how best to work with vulnerable claimants.

One of our key findings is that vulnerable claimants are worst affected by the exacerbation of financial pressures. I will pause at that and ask Joshua to add.

Joshua Reddaway: You have covered a lot of it. The only thing I would add is: how do you help vulnerable people through the process? I think that is a combination of the way it works with other organisations to do that. There is more that could be done with the help to claim service and there is more that it can do to improve its communication, but essentially this is building on the aspiration of Universal Credit to provide a tailored experience of the work coach and case manager to the individual. We believe that identifying who needs support and ensuring they get that support through the process should be data led.

Q288 **Chair:** In appendix 5 you have compiled, no doubt fairly randomly, an interesting set of comments you received in your stakeholder consultation. I want to draw attention to the last of them.

You make the point that, "Some claimants reported hardship and struggling to get by on Universal Credit after they were established on the benefit". The final quote is somebody saying, "I too have relied on food banks and rationing what myself (usually skip at least one meal a day) and to some extent what my children eat (no seconds, no dessert, very little fruit)". I find it quite distressing to learn that people on our social security system find themselves in that situation. Given your longstanding work in this area, is it normal for people on the social security system to find themselves in that position or is this peculiar to Universal Credit?

Gareth Davies: We have encountered examples of hardship with people on previous benefits. We can't make the direct comparison here because we don't have the comparable analysis to be able to do that, but it would not be consistent with the evidence the NAO has collected over the years to say this is the first evidence of hardship under a benefit system.

We note in the report the research carried out by the Trussell Trust, which is far more statistically significant than the summary that we have presented here; I think that is the best research we have seen on the link between UC first claims and use of food banks. They establish an association—it doesn't prove causation, but it establishes an association. That is why we think there is enough evidence to raise this as an issue for the Department to carry out further research on because it does need to understand better exactly what the link is and why it is cropping up in the research so far.

Joshua Reddaway: I can help by explaining exactly where this comes from, which is our stakeholder consultation. As auditors, our expertise is looking at the operations inside the organisation. It is very much an internal view, an outsider looking at the internal view of the Department and trying to give an objective account of that. What we don't have is we are not seeing the experience of the claimants. We find it incredibly helpful and are very grateful to the more than 1,000 people who wrote in to tell us their experience. I cannot say how representative that is. It does not marry up with the more than 80% of people who say they are satisfied with Universal Credit, but clearly there are lots of people who are very keen to write in to share their experience.

Q289 **Chair:** I will pick up the point about the data compiled by the Trussell Trust. You make the point in the report that that data suggests there is a link between Universal Credit rollout on the one hand, and rising food bank use on the other. The Minister told us that he has not seen evidence of a single cause for rising food bank use, but I get the impression from what you have said that you think the Department should be taking that Trussell Trust data seriously—that it is a serious, robust statistical analysis. If that is your view, what do you think the Department should learn from that data?

Gareth Davies: My predecessor, in his 2018 report, encouraged the Department to carry out more systematic research on some of these points of interest about the impact of the new system. We were pleased to see that the Department has started doing that in important areas. The research with housing associations on rent arrears is a good example of the kind of research that we were encouraging the Department to undertake. We use that example in this context to say that there is more to understand here. There is enough evidence from the Trussell Trust work that we think justifies further research by the Department.

I won't try to anticipate what that will show. By definition, it is to find out the truth of the situation or at least peel back some more of the layers. This is a really complicated interaction of multiple costs that people are handling against this new benefit, their savings position and so on. There are so many variables, but we think that the case for further research is pretty clear.

Q290 **Chair:** Are you saying that the Trussell Trust data ought to be the starting point for research?

Gareth Davies: Well, it is enough to trigger some research, whether it specifically builds on that research or takes a fresh approach, because maybe a fresh approach would be useful in understanding better the position. We don't take a prescriptive view of that at all, but we believe that that evidence is strong enough to justify further work.

Q291 **Chair:** Do you think the Department ought to be looking at the specific link between Universal Credit on the one hand and food bank demand on the other?

Joshua Reddaway: If I dare to speak on behalf of the analysts at DWP and what they have told us, the research Trussell did was on area-based data. They took the number of people on UC, the number of food bank parcels issued and various other things from an area and did a multiple linear regression analysis. That is a fairly sophisticated and good piece of research showing correlation. They found 27 food parcels for every 100 people on UC, so that is in addition. That is something to look at there. What that doesn’t do is link the specific people who go on to get a food parcel and their specific circumstances.

What they would really like to do, if it is possible—and there are lots of things they would have to overcome, including data privacy issues—is to find out what it is about the specific circumstances of somebody, why they go and get a food parcel. To do that, they would want to link the record of somebody on UC to the person who is getting a food bank parcel. That is the sort of research that they did with the housing associations on rent arrears. It requires a lot of co-operation and getting over data privacy issues. I can understand why Trussell may not wish to do that. I can understand why the Department might find it difficult as well but that is what we will try to encourage.

Q292 **Sir Desmond Swayne:** The Minister told us that he was not aware of any evidence that links rent arrears with Universal Credit, any causation between Universal Credit and rent arrears. Is he right?

Gareth Davies: We can’t say yes or no because causation is very difficult to prove. The chart that we have used in our report, using the data that the Department generated through the research with housing associations, shows a pretty clear increase in rent arrears from the point of claim, which builds up. It takes a year to get back to the original position on rent arrears after the claim. That is a clear picture of an effect, but I don’t think it tells us about causation.

Q293 **Sir Desmond Swayne:** Is it legitimate to compare post and pre implementation cohorts to try to identify an increase in rent arrears on Universal Credit, given that you are not comparing like with like?

Gareth Davies: Do you mean comparing legacy benefits, the previous set of benefits?

Sir Desmond Swayne: Yes.

Gareth Davies: I will ask Joshua to come in because he was completely involved in this analysis that we are reporting on here. I think as long as you are clear about the source of the data it still makes for an interesting comparison, but there may well be limitations in the conclusions you can draw. Joshua, why don’t you respond on that?

Joshua Reddaway: To be clear, this analysis does not look at different cohorts. It is the same cohorts, so it is looking at an individual—it is the average across the population but it is looking at how much arrears they had in the weeks before they applied for Universal Credit, how much they had on the day they applied for Universal Credit and then tracking that mostly over 17 weeks, and for a smaller cohort over 52 weeks. I think it is legitimate to do that. With all of this stuff, I think the Department has an issue with the idea that you can take it and say, "This is Universal Credit as opposed to anything else".

However, what it definitely shows, if there an issue with Universal Credit itself, is that during that time there is an increase in arrears that take time to pay back. Of course, that paying back, the fact that they reduce over time is because they have alternative payment arrangements in place for the main part, which means that landlords have the right to a deduction, essentially, from the person's benefit. I know that the Department stressed that they come down over time. Of course they do, but they pay for their repayment.

Q294 **Sir Desmond Swayne:** Yes, but is it legitimate to point out that natural migration to Universal Credit will be occasioned often by significant changes in the applicant's life and that might be the cause of the rent arrears rather than Universal Credit?

Joshua Reddaway: I think that is right. That is why it is not necessarily the case that you can find that there is an issue with Universal Credit means that there would not be an issue with what is a counterfactual, I think is what you are essentially saying, if they were on a different benefit. But the reality is that most people going on to Universal Credit, because it is a new benefit and it is increasing in population, have had an event—a change in life circumstances, perhaps a nice one: being married, for example—that is often a financial crisis of some sort.

There is something about the nature of that population and that is why we think further research is always necessary to look at it. But even though you cannot assess against a counterfactual, it does not get away from the fact that there is definitely something happening where people are—and we thought it was very interesting—getting into arrears before they apply. There is something about them waiting to get into financial difficulty before they apply, then those arrears accelerate quite quickly during the first assessment period and they come down very gently after that.

Q295 **Sir Desmond Swayne:** Do you have any observations about how the Department could work more constructively with landlords to identify problems ahead of them becoming a significant burden?

Joshua Reddaway: Do you mean with people who aren't—

Sir Desmond Swayne: Yes, exactly.

Joshua Reddaway: It is very difficult, of course, for the Department to support people who aren't essentially its customers at that point, which is why we stressed very heavily the need to work with partner organisations. The Department does quite a lot when there are mass redundancy programmes, for example, but whether or not there is anything more it could do to work with employers and those who are noticing when people go off—housing associations are one source, the benefit advisers—to get the message out there to—I am hesitant to say "apply early" because it is not always to the advantage of the claimant to apply early—to get the right benefit advice and apply at the right time.

Q296 **Sir Desmond Swayne:** Surely it is advisable to apply early if you are made unemployed. If you are not on a legacy benefit, surely the earlier you apply, the better.

Joshua Reddaway: Not necessarily, because of complications over whether or not you are already on tax credits, whether or not you have a redundancy payment coming up, what your savings are and its interaction with previous. That makes it a very complicated question and it is why I think the Department would be very hesitant to do a mass media campaign saying, "Apply early". It is, "Get the right advice early".

Q297 **Sir Desmond Swayne:** For the existing client base, however, is there anything the Department could be doing more proactively with landlords to identify and manage the vulnerable clients who are more likely to go into debt?

Gareth Davies: Yes, and some of our recommendations are aimed at that. It is particularly knowing more about your claimants and identifying vulnerabilities much earlier and then matching up, the process that they have been using of matching up account managers to people with specific needs, whether that is language issues, learning difficulties, the range of vulnerabilities that claimants will present with.

There is some good progress on aspects of that, but we think there is more to do. A number of our recommendations are aimed at better understanding the vulnerabilities of clients and then using the resources the Department is able to deploy to better match to those.

Q298 **Shaun Bailey:** I want to touch a bit more on what has been said about the fact that the Department considers the monthly assessment structure to be inherent within the design of UC. When you consulted with stakeholders, and particularly with claimants, what was the overall view about how the monthly assessment period works for claimants?

Joshua Reddaway: It has to come with the caveat that we would not say our stakeholder consultation was representative at all, but it is fair to say that we had a lot of people writing in to us to say that they felt that the wait in the first assessment period caused them financial hardship.

Q299 **Shaun Bailey:** Focusing more widely on the Department as well, do you think that the Department uses that period effectively, particularly when one of the big focuses for it is to ensure that payments are accurate? Do you think the Department is utilising that in the way that it says it is or should be?

Joshua Reddaway: Any means-tested benefit has to have a processing period where they are checking the eligibility of the claim. It also has to have an assessment period: what is the period over which you are assessing income? Universal Credit is designed in such a way that those two are the same thing, the result of which is that when we started the audit we were thinking, "How long does it take for them to process this? Could they do that any more efficiently?", but there is no incentive.

In fact, it would be inefficient to do it quickly because they have to make sure that it is done by the end of the first assessment period and that is what all of their processes and digital systems are built around. When you ask is it using it effectively, the key measure is how many are being paid on time, and that has improved. The other side of effectively, rather than efficiency, is cost and fraud and error.

What we found is that the Department has done very well indeed in focusing on payment timeliness, and that has improved enormously, and we were quite impressed with the management of that and the way it was able to do that.

We were much less impressed with the fact that fraud and error is now one in £10 that is paid out. We were worried that its own staff were telling us that the level of payment timeliness they were getting was not necessarily sustainable and that the various parts of the system they expected to be automated by this point are not yet automated. Does that answer your question about are they using the time effectively?

Q300 **Shaun Bailey:** Yes, it does to an extent. You raise a really interesting point there about the rigidity of some of the processes that they use. I am conscious that some of the things we have heard in the past have been about how the Department, where it can, will always try to operate a degree of flexibility, but it sounds as if, with the processes that it developed, it is almost penned into a corner. Would you agree with that assessment, that perhaps given the system structures it has put in place, it is a bit penned in?

Joshua Reddaway: I am not sure I understand the question of "penned in". It has designed a system that requires a monthly assessment period and it has built processes that support that.

Q301 **Shaun Bailey:** That is helpful.

Turning to the use of RTI data, we have heard from the Secretary of State about the people who fall through the gaps, particularly those who are self-employed, and that there is more to do. From your perspective and the work you have done, what would you say that "more to do" could look like?

Joshua Reddaway: The design and policy of UC was very much built around the concept of RTI from the beginning. RTI is a feed from employers. It is linked to the PAYE system and it only applies to people who are on the PAYE system. Consequently, the Department needs to do much more for people who are self-employed.

It is even harder for people who are paid cash in hand in the black economy. But leaving that to one side, if you are self-employed at the moment you are less likely to be paid on time and less likely to be paid the right amount and you are more likely to commit fraud on that. That is because verifying the data is so much more complicated and hard. What the Department would say is that it was ever thus with any benefit system, but the challenge, of course, is that the number of self-employed in the economy has been growing as a percentage of all employed people over the last 10 years.

Q302 **Debbie Abrahams:** I want to clarify what you were saying before about the incentives for paying on time or even within the five-week period. Are you saying, basically, that with the way it has been designed there is no incentive to pay earlier? On top of that, one of the objectives of UC in reducing overpayments, for example, has not been achieved.

Joshua Reddaway: There have been previous benefits where the payment is made almost as soon as the benefit has been processed. It is not that there is no incentive. It is not legally possible or operationally possible to pay earlier than the assessment period. We know that they can make payments quickly because they do advances, but you can't do a payment based on someone's assessed income until after the period in which the income is being assessed is over. Therefore, there is no point in them rushing to process the payment any faster than that.

Gareth Davies: The work that is possible in that time is to minimise fraud and error through the verification process and the other checks being made. As Joshua mentioned earlier, that is where there is still a lot of progress needed because at the moment that is getting worse rather than better.

Debbie Abrahams: Yes, 9.4%.

Q303 **Selaine Saxby:** I am going to ask about timeliness. You have mentioned already that you are impressed with the change from 50% to 90%. Do you think it is possible to get to 100%? Would there be any trade-offs in getting there?

Gareth Davies: There definitely would be trade-offs. I suspect 100% is not attainable, just because of the nature of the system where you are having to make checks, deal with unusual and anomalous cases, and there are aspects of the verification process that will get tripped up because of slow responses from other parts of the system and third parties. It is obviously the target that it should be aspiring to. The closer you get to it the more you will be into diminishing returns on costs, I suspect. There will be a point where the final fraction of a percent is extremely expensive to address and possibly just not possible for the reasons I started off with.

Joshua Reddaway: I think what Gareth is setting out is the biggest reason for why it is not possible. There is a small issue relating to the work capability assessment. The data marks people as not paid on time if they have applied for work capability assessment, because you don't get the limited capability for work or limited capability for work-related activity elements until 13 weeks into a claim. Therefore, it is not possible to meet the target for those groups. That is why we set out in the report a slightly different target from the one they use, called the core element, but that is not quite perfect either. There are some measurement issues. The much more important issue is the trade-off and we think there were signs before Covid of stress in making sure you are paying people on time without properly concentrating on automation or fraud and error.

Gareth Davies: As well as the percentage paid by five weeks paid on time, there is then what happens after that for those who are not paid. As you will see from our report, if you miss your five-week payment there is an average delay of three more weeks on top of that, which is substantial and in some cases there were very long delays. As well as encouraging further progress on the target of five weeks beyond 90%, I think it is legitimate to encourage the Department to minimise the delays once that five-week target has been missed.

Q304 **Selaine Saxby:** Within the work capabilities that you touched on, are there things that you think the DWP could be doing to speed up that process for disabled claimants? You have been talking about what is causing some of the late payments. Do you feel that there are other things the Department could be doing at this time?

Joshua Reddaway: The work that we did was to look in depth at a number of claims that had been paid late to try to work out why. We are not pretending it is representative but we thought that looking at these claims in full was very informative. The key issues that came up were communication, particularly where people had difficulty reading and writing in English, and their ability to communicate through the journal. There are a lot of instances of the Department repeating the same thing in the same official way and it clearly not landing, so there is an inability to tailor communication there.

There was an issue with self-employed, which we have already talked about, and with people who have to go through the habitual residency test. There are problems with the process of the test itself. It is a very long and difficult process to hold the interview but the system doesn’t help. We found it was very easy to overwrite the existing decision and make the system have somebody go through the whole process all over again and things like that. Proper automation and working on it is something the Department can do, but it will take a lot of time and it needs to be able to focus on that to get that perfect.

There is that side, but overall if it is dealing with these small problems of the process, our view is that it needs to be able to identify as soon as somebody walks into a Jobcentre or applies online the early indications that that person is going to need more support to get through the process and then how do they target it.

We believe that because that is what work coaches were telling us they were already trying to do but they were doing it in workarounds in the system, so they had local spreadsheets and local systems that were not built into UC. As a result, the test and learn approach the Department says it has—and does have for the most part—is not applied to that. It does not have the dataset, so it is not data led, so it does not know what works. We felt that it needs to get that data-led approach right in order to know what works so that it can roll it out properly.

Q305 **Chris Stephens:** Joshua, I have about three things that I want to pick up with you, based on the report. The first one is in relation to the habitual residency test and that being an obstacle and a reason for payment delays. Could you talk us through what improvements the National Audit Office has identified to improve payments being made on time for people who are caught up in the habitual residency test?

Joshua Reddaway: It is the ones that I have just outlined. It would be really good not to be able to easily overwrite what has already been done and you go back to the beginning of the process. I don't think it happens that often but it did happen more than once in the sample that we took out. There are issues about—

Q306 **Chair:** Joshua, what exactly is the problem here? Do you get halfway through the habitual residency test process and then something goes wrong and you have to go right back to the beginning again?

Joshua Reddaway: Yes. It is something you see in any kind of operational system where something has gone slightly wrong and there are manual parts and digital parts, but it is something that needs to be smoothed out. It can all come under the umbrella term of further automation and improving the process.

Q307 **Chair:** Is it issues that are outside the Universal Credit system or is it part of that?

Joshua Reddaway: That is the second thing I was going to say. The HRT system is highly dependent on its interaction with the immigration system. What will probably lead to improvements is that once the Home Office has sorted out what it is doing with the immigration system in the near term, following the exit from the EU, I think the Department is hoping to build on the back of that. Of course, that will apply to anyone who is a citizen of the EU. It is an end-to-end process and it a complicated and difficult end-to-end process but I am sure you are aware that the interview for an HRT is quite long, and can I say, difficult.

Q308 **Chris Stephens:** I have had some constituency cases and I am dealing with immigration regularly, so I get what you are saying about the immigration system. Has the National Audit Office identified that there could be further problems or additional spikes in relation to this because of Brexit—for example, more EEA nationals who may be unemployed because of Covid or British citizens who, after a long stay abroad, may be coming back? Has the National Audit Office looked at that as something that the DWP will need to work on?

Gareth Davies: Not specifically, no. We are doing separate work with the Home Office on preparations for the border and immigration after the end of December but not specifically focused on the question that you have raised. We constantly look across the work we are doing to spot issues that are joining up. Your point is an important one that we will take away and consider whether there is more to do on that, but at the moment we have not specifically focused on that as part of the work that we are reporting here.

Q309 **Chris Stephens:** I think you anticipated my next question in your opening remarks and that is in relation to advances. The Department extending the repayment period to 24 months is scheduled for October 2021. Has the National Audit Office had a look at whether there could be an earlier implementation date than October 2021?

Gareth Davies: It is an operational matter for the Department. Our job is to understand the impact of these things on the value for money of the whole system and we are looking closely at that. Our observation is that is a long time to make the change. That is a decision that the Department has to make but not one for us. It is a policy issue as to whether that is the right approach to recovering advances and again not one that we would comment on. We would just say that that is a long time to implement a change.

We understand, and we point out several times in the report, that there is a limit on the capacity of the Department to make changes in the UC system, given its scale and the resources needed to make even what, on the face of it, would appear to be quite a simple change. We understand that and these things have to be phased in in a way that can be delivered safely, but I agree it does seem like a long delay. Joshua, can we shed any more light on the reasons for it?

Joshua Reddaway: I can talk more about the process that they use for prioritisation if that is helpful.

Chris Stephens: Yes, please.

Joshua Reddaway: They have a very managed process for doing change and development in UC, much more so than you see in most digital systems or processes. That is because in theory they are still building it, although most of it has been out for quite some time now. That uses an agile process and they use development phases that last about six months.

There is a certain amount of problem statements that need to be solved in each development phase. The way that works is they have a limited amount of capacity within each phase of issues that they are dealing with. What we have seen quite a few times is issues that they wish to put in to these being knocked out and put into the next development phase. We have seen that with fraud and error quite a bit, where things that they should have been doing to bring that down have been pushed to the right. That has happened particularly with budget announcements and changes to the system.

What they have told us but I have not been able to verify is that they are currently focused—obviously, this was paused during lockdown and most of the staff were transferred to the front line in order to deal with new benefits. Those staff are now returning or have returned to the programming side. I should say it is not just about capacity in programmers. It is capacity of the system to absorb change, which includes the number of change notices and so on they can put out to frontline staff and their ability to test it and evaluate whether or not it is working. There is a limit on that.

They told us that at the moment they are responding to the court cases around the SDP gateway and removing that for transitional protection. I assume that they will also be doing work around the court case on monthly payment areas and that those will be taking priority, but I can't verify that. I have not gone in and checked that and, frankly, what they prioritise is, of course, an issue for them.

Q310 **Chris Stephens:** Thanks, Joshua. I think that is helpful. The report identified 61% of initial claimants having a deduction in their payments, which is a concern. Could you talk us through what you identified as the impact on claimants of advance repayments and those who face regular deductions from Universal Credit?

Joshua Reddaway: What is the impact on the individual of having the deduction? Quite logically, it is that they have less money. What they told us in the stakeholder consultation is that it has an impact on their ability to budget and have enough money to live off.

As I said before, that is not necessarily totally representative but we are talking about—this, of course, is normally done as a deduction from the standard allowance element, and in figure 9 of our report we set out the proportion of the standard allowance that is deducted for different cohorts of people.

One of the things that we note is that those who are deemed to be on a low income have the greatest deductions and, therefore, have even less Universal Credit to live off. I admit "low income" is a strange term for Universal Credit because surely everybody on Universal Credit is on a low income. What the Department means by that is the people who basically just have Universal Credit and no other form of income.

Chris Stephens: Thanks, Joshua. Again, that is helpful.

Chair: Chris, can I interrupt you? Debbie Abrahams wants to pick up a point on this.

Chris Stephens: Yes, of course.

Q311 **Debbie Abrahams:** Thank you, Chris. It was specifically about who are the 61%. You said people on low income. Are you able to go any further? It is the people who are receiving income only through Universal Credit. Are you able to say a little bit more about the characteristics, the vulnerability of these claimants?

Joshua Reddaway: There is often proxy rather than telling us exactly the characteristics of the individual. One of the things we set out in the report is that the Department's inability to check how different people are affected by this is slightly disappointing. I know this is something you explored with the Minister. It is not very good at recording characteristics of individuals.

But in figure 8 we set out by elements and those act as proxy. What that tells us is that whereas 61% of all claims have a deduction in the first period—and, of course that is in the first period; it goes up by the fourth period because you can defer advance payments but we thought we would just pick one—it is 80% if you are on a low income, 70% of those with a disabled child. You are more likely to have a deduction if you have a disability or your child has a disability. If you have caring responsibilities it is slightly higher at 65% and it is much lower if you are self-employed, 45%, or employed, 47%.

This is a combination of advance repayments and other Government debt, so it is not just the advance that you will be repaying but repaying debts to other Government Departments and also, to a much lesser extent but still there, third-party debt that is collected through the Universal Credit system.

Q312 **Debbie Abrahams:** Rent arrears and stuff like that?

Joshua Reddaway: Exactly.

Q313 **Chris Stephens:** Joshua, I will send you the written answer I received from the Department about some of these repayments, which may be helpful. That moves us to the question as to whether in place of advances there should be scope for a non-repayable grant. Has the National Audit Office looked at the feasibility of replacing advances with non-repayable grants?

Gareth Davies: No, we haven't. First of all, it is a policy choice that is beyond our remit. We could set out what we think are the relevant factors in considering different options, but it is not a choice for us.

A really important factor in deciding what to do with advances or any potential replacement is the risk of perverse consequences or perverse incentives from that choice. For example, if you replaced the advances with a grant, do you increase the incentive for fraud at that early stage, in other words making a UC claim purely to access a non-repayable grant as the first step of that? There may be other advantages of that move, but that is certainly a potential disadvantage that would need to be taken into account alongside it.

Our approach would be to understand whether any alternative has been thought through on its impact on the issues we have been discussing here—financial stress and hardship, the likelihood of fraud or error—and any other undesirable incentives you might have inadvertently built in. For example, is there an incentive to remain on UC longer than you would otherwise need to do because of the way the advance system has been changed? Experience says that lots of well-intentioned changes lead to unexpected and negative consequences, so that would need to be very carefully thought through.

Q314 **Chris Stephens:** There is already fraud in the advances process, isn't there? We have received a lot of evidence on that in the Committee. Has there been an estimate from the NAO on that, Gareth?

Gareth Davies: We reported separately actually a few months ago on the level of fraud in the advances and the big impact, as you will remember, was that reduced that quickly was face to face interviews in jobcentres which of course then became impossible in the lockdown period. Yes, we pay very close attention to what is happening on advances fraud.

I was merely making the point that there may be attractive alternatives, but they do need to be carefully thought through for their wider impact, including on fraud.

Q315 **Chris Stephens:** A final question then, Gareth. If a non-repayable grant process was introduced for someone after they went through the qualification process for Universal Credit, that would eliminate the claim to fraud, wouldn't it?

Gareth Davies: Yes, if you had checked eligibility, been able to satisfy yourself it was a legitimate claim, that obviously deals with that particular risk.

Joshua Reddaway: I would just add that, of course, at the moment that would mean that the advance is paid at the same time as the payment because all advances at the moment are not made until identity has already been checked. It is the other aspects of the claim that are doing—or fraud that is getting through the system after an identity check.

Chris Stephens: Not necessarily always, but back to you, Chair.

Q316 **Steve McCabe:** Good morning. I want to ask a couple of questions particularly about this issue of vulnerable claimants. As I understand it, your conclusion was that the Department does not have the information it needs to track vulnerable claimants and support them effectively. What kind of response have you had from the Department to your recommendations? Are you encouraged by them?

Gareth Davies: Well, the fact that this is a cleared report is an indication that the Department understands the basis for our recommendations and hasn't challenged their relevance and usefulness. That is a good start, I think.

As you will have seen from the appendix in this report, we always follow up our recommendations and in this report we report back on the Department's actions in response to our previous recommendation. We will do that again in this case as well.

Joshua, you are the one having detailed discussions with DWP, so what is their reaction?

Joshua Reddaway: Certainly as of last week they said that they accepted all of the recommendations and they would be looking to implement them.

The specific one about vulnerability is, however, an issue that we have now raised in three separate reports since 2018: in this one, in our report on rolling out Universal Credit and also the one on supporting disabled people to work.

In each one we raised the issue about what appears to be the Department's philosophy: that you should not record vulnerable characteristics in a structured data way. That is because they are worried, they tell us, that if you record it in a structured data way it becomes out of date and it becomes prejudicial to the individual.

However, what that means is that they record in an unstructured way. It is recorded in text fields in the system, often in the journal, which we found, by the way, is misunderstood by many claimants who treat it—because it looks like an instant messaging service, they treat it like one, but there is not necessarily somebody on the other end responding as if it is. They record it in things called pinned notes, which are the digital equivalent of a post-it note put on the paper file at the top. So it is the equivalent of you opening the file and finding post-it notes that this person struggles with English or something. It will be written in whatever way the work coach or case manager wanted to write it.

That works from an operational perspective of having somebody opening the file and needing to know what they need to know quickly. It does not work from having a data-led approach to understanding what is going on. It also does not work from a checking how work coaches are applying their—frankly under the current system, which has loosened up enormously, it is no longer target led or about offloads or anything, it is about a tailored approach.

There is a lot of discretion for the work coach and we were concerned that they had no means to check that the quality or the approach that work coaches are taking around the country to people with, for example, different types of disability or, if you want to take into account other protected characteristics, how they are actually applying the welfare system, and they cannot tell that.

Q317 **Steve McCabe:** I want to just come back to pinned notes for a second but just before that, if they have accepted all your recommendations but some of these criticisms go back to 2018, have they given an indication of when they might act on your recommendations? Is there a timescale?

Gareth Davies: Not in this report and obviously we are going to be following that up with them. To be fair to the Department, they are obviously still dealing with the impact of the pandemic, and they are expecting another wave of new claims as redundancies work their way through employers. They do have other things to think about alongside our recommendations here.

As we pointed out, for this report, the field work was done before the pandemic. But, even so, these will remain important issues and what the Department is doing is obviously prioritising its response to this alongside all of the other urgent demands on its time. We stay in close touch with them to understand how it is doing that. If we have concerns about how it is doing that, we will obviously raise them in this public way, as is our usual practice.

Joshua, in terms of timetable I think we are waiting to see a prioritised plan alongside everything else?

Joshua Reddaway: Absolutely. We will do that through the mechanism we have with the Department through their Audit and Risk Committee; the non-executive directors also have a role in monitoring the implementation recommendations. So we will be advising them on where they have got to this autumn.

Steve McCabe: Thank you.

Chair: Steven, can I just interrupt you—apologies? I think Debbie wanted to pick something up very quickly.

Q318 **Debbie Abrahams:** I do apologise, Steve. In terms of the pinned notes, you are saying that these are local notes made by work coaches, so they could vary from area to another. There is no systematic approach in the recording? To one person it could mean one thing and to another it could mean something completely different. That is useful.

Could I also understand in terms of what disability organisations have said about the systematic recording of protective characteristics: is this a departmental issue or is it more widely the issue about the recording things?

Joshua Reddaway: We have not spoken to disability charities about their view on that. The Department has not told me that they are aware of disability charities' views on it. All I have heard is the Department's view on it. I am trying my best to explain a view I don't necessarily agree with.

Q319 **Debbie Abrahams:** That is very helpful. But if you have made the recommendations three times and we still are more or less in the same place, that is an issue.

Joshua Reddaway: The Department does not agree so it will not do it at the moment. I was quite encouraged by the fact that I believe the Minister sat here in July and said that he was interested in it as an issue.

Q320 **Chair:** Do other Departments say that they cannot collect this information for the same reason or is this just DWP?

Gareth Davies: I don't think we can generalise. Clearly every Department has had the response of GDPR and the strict rules on the collection and use of personal data that goes along with that. GDPR does not prohibit the collection of personal data; it just puts strict controls on how it is stored and used. It has to be for a legitimate purpose.

There isn't a view that says that this is not just possible but it would bring a significant management responsibility with it. The Department is quite right: it needs a very careful handling. We don't see how we are going to crack these issues unless you have as structured approach to understanding your customer base in more detail.

Chair: That is very helpful. Steve.

Q321 **Steve McCabe:** I was just going to say, Joshua, what the Minister actually said about pinned notes was, "By pinned notes we are able to put quite a good amount of detail as to the specific characteristics of an individual and therefore able to support them based on that". He went on to tell us that what he thought you actually had in mind was that you wanted a check box or something where we can identify particular vulnerable groups, disadvantaged groups or cohorts of people.

I think we are making a more specific criticism of pinned notes. Has the Minister got that right and have I misunderstood?

Joshua Reddaway: I think the Minister has summed it up quite fairly. In terms of whether or not you can record a lot on a pinned note, as I say it is a digital equivalent of a post-it note, which is not totally fair because it is a large text field. Think of as a lot of post-it notes that you could add and you could expand your post-it note to make it ever longer. What is written is completely at the discretion of the work coach and how much time they have to fill it in, which will normally be between one appointment and the next.

Gareth Davies: There is a point I want to make. The root of this, I think, is the way in which the system has been built. Like many modern IT systems, this has been developed with an Agile methodology and you start with a minimum viable product, which is essentially your basic system that will deal with the majority of your straightforward cases. Then you build more detail on to that minimum viable product as you need it.

That fundamental approach to the development of this is obviously a sound and recognised approach to IT development but it brings this risk that the system is really designed for simple cases and it works well for those cases. Depending on how you then go on to develop it, it works less well where there are specific needs for individuals that need a tailored approach. That is what we are dealing with here: it is a consequence of that kind of fundamental architecture of the way in which the system has been developed. Therefore, elements of unpicking are needed to be able to build in the more structured approach that we are describing, which would come with cost and time.

There is a big learning point here for Government as they develop major IT systems: just be careful that you are not tying yourself down to a system that is inflexible because of the way it has been designed in the early stages.

Joshua Reddaway: Just very quickly, trying to be fair to the Department, what they said to us in our 2018 report was they believed they could introduce something called text mining on pinned notes, which is essentially how you create structured data out of unstructured data. The problem is that the technology just isn't there to do it and it has not worked. It is not that they ignored us in 2018, they tried an approach or they wanted to pursue an approach that hasn't worked, but we did raise it again last year and again this year.

Q322 **Steve McCabe:** Are they on a new approach now? That didn't work, it was unfortunate but is something else in mind?

Joshua Reddaway: The latest I have is the evidence that the Minister provided to you in July.

Q323 **Steve McCabe:** Thank you. Last question on this. On the idea of support workers, we were told by a witness from Changing Lives that one of the problems is that sometimes that works really well and they get on well with the Department, they are able to support people and it is quite good; on other occasions, they are required to constantly repeat that they have the right permissions to support people in the first place.

It always kind of suggested that there are people in the Department making it difficult for support workers to perform that role. Do you think there needs to be a bit of clarity? Does there need to be more guidance about, where someone has a support worker, that person should be allowed to represent them or assist them without any unnecessary obstacles?

Joshua Reddaway: This is something that we put in a recommendation on in our 2018 report, and we do have a follow-up in the section on recommendations. We found that there were lots of people who could have a role in a claim—support workers or often landlords or the council. One of the things we were finding back in 2018 was fairly poor practice, but you understand why it is happening.

For example, local authorities responsible for very vulnerable people, protected and so on, were writing people's passwords down and entering for them into the system and things like that. It just cannot work when the system is saying that it is the individual that has to represent themselves. Surely there is a way of getting one of their representatives to have their own way of getting into the claim and having only data, only things that they should be able to see being able to see and not being able to pretend that they are the claimant.

We didn't want to recommend exactly what the Department do because we thought that it a complicated area and it needs to be sorted out. That is why we left it very open with the word "might"—it might include that, it might include something else.

As we put in the report, the Department has yet to evidence that it has considered our recommendation to extend the concept of a landlord portal to simplify other verification processes. It is testing digital processes to support claimants who need help and it is about to introduce it later this year, so it is hoping to do what you are talking about but it has not yet built that third party role into the system.

Q324 **Steve McCabe:** Okay, so that is another one we should watch for.

If I can move on, I want to quickly ask a little bit about backdating and claiming on time. I think I saw somewhere that 20% of people do not claim on time and this is part of the problem. I notice that the Centre for Social Justice said that we should include a statement in people's P45 slips telling them that they are now entitled to claim Universal Credit. Is that a good idea? Is there anything else we could do to encourage people to claim in a more timely fashion?

Gareth Davies: We touched on this earlier, didn't we, that of course raising awareness of how Universal Credit works, the eligibility criteria and the time involved, is bound to be a good thing. We were urging caution on simplistic messages about just claiming earlier because that may not be in somebody's interests once the full circumstances of their case are understood.

As well as raising general awareness, it is also encouraging people to seek advice and to be clear what the sources of good advice might be that they can draw on. That is as far as we have got with our view on that.

Joshua Reddaway: Of course, it would be nice if employers could help with that.

Q325 **Steve McCabe:** Would it be wrong to think that the reluctance to backdate on the part of the Department is largely a cost-saving measure?

Gareth Davies: I don't think we have any evidence and we are raising it as a policy issue rather than anything we can shed light on from an audit perspective.

Q326 **Steve McCabe:** Do you have any idea what it might cost the Department if they were to backdate more claims?

Gareth Davies: No. I am sorry, but we haven't estimated that.

Q327 **Steve McCabe:** You don't? Okay, thanks.

One last thing then. I think you touched on this earlier when you were talking about how things can go wrong when people are trying to work through the system.

You referred to the problems of the to-do list and it was that this is something where people might misunderstand or not follow it completely and it can result in a claim that they think is active then being closed. Is there something fundamental about the to-do list? Could it be simplified or does it need scrapping or do people need a clearer warning about the implications of how that is to be filled in?

Joshua Reddaway: Do you mean the claimant's to-do list or the case manager's and work coach's? DWP's to-do list or the claimant's?

Q328 **Steve McCabe:** I understand from your report, and this is a quote, that: "Claims are often closed if they miss something in their to do list". As I understood it, this was the claimant just failing to complete an extra bit of information. You go on say that could sometimes be a language issue.

Joshua Reddaway: Sorry, I am trying to place the quote. Yes. My confusion is that there is also quite a bit where work within the Department doesn't clear its to-dos, and it uses the same language for both.

Q329 **Steve McCabe:** Presumably they don't close a person's claim because a member of the Department fails to complete their job properly. Presumably it gets closed because they see the claimant has not adequately completed the application. Is that right?

Joshua Reddaway: Yes, sorry; I had not understood the question. That is absolutely right. I am not sure that we would say that the to-dos is necessarily the problem by itself, but some of the language and so on around that.

One of the things that is quite exciting about the way UC works compared to the legacy system is the tailored approach and the one-to-one relationship you get with the work coach and the case manager. One of the things that we found with the claims that go wrong is where that breaks down, it looks more like the old system.

Under the old system, actions were routed anywhere in the country and anyone could—you would get it, you would sit next to one of these people doing it in an operational centre and they would have no understanding of what the claim was. They would be seeing for the first time on the computer saying, "This one just needs from this bit of the statement process to this bit of the statement process". Whereas now, somebody is meant to have that full understanding.

Where it breaks down is where somebody is away or it gets moved from one person to another. What is needed, then, is better communication about what needs to be done and that ability to take a holistic approach. I am not pretending for a moment that that is easy and it is something the Department is taking radical steps to get as far as it has, but it needs to get even better if it is going to be able to help people and reach out and say, "You have got this to do. When you walked into this jobcentre, it was quite clear you really needed this so why have you not now taken this, that and the other?" and to support them and do that.

Q330 **Steve McCabe:** Can I just ask one last very quick thing on this? I notice that the NAO say that your claim can be closed if you are hospitalised. Does no one think it is worth checking that you may in hospital, you may be ill? Is there nothing in the system that would allow for that?

Chair: One sentence.

Joshua Reddaway: I think the hospital rules are in the regulations and the policy.

Steve McCabe: Okay, thank you.

Q331 **Nigel Mills:** The report is pretty scathing or highly critical of how much UC is costing and whether it is going to achieve anything like the savings on the original value of the money. Are you confident that, when it is finally rolled out, UC will still represent an effective use of taxpayers' money?

Gareth Davies: I think it is too early to say that. What we chart in this report is the fact that the implementation phase has been extended and therefore the implementation cost is going to be higher by a significant amount. Obviously, that needs to be taken into account as part of an overall value for money assessment.

Then the running costs themselves are coming down as the volumes go up and as automation increases, but they have not come down as fast as the Department expected. It is too early to conclude on whether the objectives for a more efficient overall system are going to be achieved, but obviously there are some headwinds now facing the programme through the level of demand it is already facing and will face for the rest of this year, which will further complicate those calculations. Too early to say and a long way to go.

Q332 **Nigel Mills:** It is still possible it will come out right in end?

Joshua Reddaway: When we first looked at these line items in the full business case in 2018, we were somewhat surprised to find that the annual saving that they were forecasting was entered into the spreadsheet as 0.1 because it is in billions. It is the smallest unit that the spreadsheet could possibly have. It was about as marginal as is possible. I know 99 million a year sounds a lot, but in terms of the use it is not.

The case that the Department would say is on a like-for-like basis having a digital system is cheaper and that is quite possibly true. We certainly know that having a digital system allows them to expand quickly because they have just had that test under extreme conditions and it supported them there.

But the issue is that Universal Credit is not a like-for-like system to replace. The things that mean it will cost more are the additional conditionality, the tailored approach that we have been talking about that has always been part of Universal Credit, also we raised in our 2018 report that that 0.1 saving did not take into account all local authorities' additional costs—so it included local authority savings but not their costs or other organisations' costs, such as the increase in arrears of landlords and so on.

That is why we would say it is not clear; it really doesn't necessarily even look very likely. What I would say—

Q333 **Chair:** It sounds pretty unlikely.

Joshua Reddaway: What I would say is that I bet that we almost will not know because it has taken so long to implement that the counterfactual just is not clear. The UC will end up costing a different amount than what was originally expected because it is a different system. That is the point of the Agile system: it has evolved as it went along and has been implemented.

For example, one of the biggest expenses was thought to be in work conditionality, which has not been introduced. So that is not an expense at the moment. What is your counterfactual, because the legacy system would have evolved as well during this time? We will not know.

Q334 **Nigel Mills:** Presumably, UC just costs what it costs now—there is no alternative?

Joshua Reddaway: Yes.

Q335 **Nigel Mills:** It would cost a hell of a lot more to try and reinvigorate all the legacy benefits that have been frozen in time for the last decade.

Joshua Reddaway: Absolutely, but what we also do know is that it is not yet creating savings from the legacy system because essentially they have double running costs. Yes, it is what it is and what it is right now is two systems running at once, and that is particularly expensive.

Q336 **Nigel Mills:** So we have the real problem of not only is it costing more, but it seems to be generating a whole lot more fraud and error in the way it runs as well. Can you just perhaps talk us through that? I just want to get my head around this idea that, although there might be more fraud and error from UC, it might actually cost the Department less. Presumably that is because they have identified the threats and because they have been identified they can be counted as an error, whereas in the previous systems they weren't identified specifically.

Joshua Reddaway: I shall do my best to try and explain that, but I will apologise in advance because every single time it seems to get quite convoluted.

The issue is that 10.5% fraud and error this year. Expectation was that it would be—so that is 9.4% overpayments against an expectation that you couldn't backwards calculate from the FBC in terms of the saving of 6.4%. They always thought the rate of fraud and error in Universal Credit would be high compared to other benefits. The reason they said that there was a saving was that they are comparing it to tax credits.

Now, in tax credits they have something that we might call an overpayment but it is not fraud or error and therefore we would not consider it to be fraud and error in terms of the accounts or it is not irregular. That is, as you know, tax credits have an annual assessment period and people's income changes during the year—it is paid on the estimate at the beginning of the year of how much income someone is going to have but if somebody's income rises during the year, it is essentially reclaimed at the end of the year in theory.

They are classifying that timing difference as an overpayment, even though we would not classify that as an overpayment because that is how the system is designed. They are also saying that not every bit of tax credit is actually recovered. We know that because there was a huge amount of tax credit debt. UC is much better at, by not generating this problem in the first place and being monthly, reclaiming these overpayments earlier and thus saving money.

The Department is able to say that although Universal Credit has the highest level of fraud and error since the tax credits in 2003 that it is saving money compared to tax credits today, although much, much less money than they expected because it is a much higher rate of fraud and error than they expected.

Did that come even close to explaining it? Convoluted!

Q337 **Nigel Mills:** I am trying to get my head around a system that was supposed to be based on real time information, so it was supposed to pay the right amount. But because we don't have RTI for all the claimants, what has happened is that the RTI is not coming through in time and is therefore having to be corrected.

Joshua Reddaway: We set out in the report that the different elements of fraud and error in Universal Credit that are higher than expected. Essentially, yes, RTI is one of the biggest of those. This is pages 40 and 41 in paragraph 2.24. Actually, the largest is capital and that is because Universal Credit does not really have a means to verify people's capital at all or as accurately as they would like. It is really up to the interaction with the person to understand what capital they have. There is 2.8% mostly fraud—2.8% overpayment compared to 0.7% that they predicted. The RTI is 2.4% as opposed 1.1% that they predicted.

They always knew that there would be people who were coming round the RTI feed but it is in much greater numbers than they were expecting. The reason for that is the number of employers who are not recording RTI, so certainly a black economy, or totally legitimate self-employed.

Q338 **Nigel Mills:** Are you happy that the 10.4% or 10.5% fraud and error rate is a meaningful number—that we are in danger of losing 10% of what we pay out on UC? Is that somehow double or multiple counting, and that money is not actually being lost?

Joshua Reddaway: The Department does record its recovery rate and likes to record on a net basis, but the net basis is not that much lower than the gross basis. The way that it calculates that is on a sample called the monetary value fraud and error sample, which they do annually. They then extrapolate it out. The vast, vast majority of that fraud and error is never detected. It is not specific cases and therefore it is not pursued.

There is a lot that is detected and they do pursue some of that, or hopefully most of that, but you can see the level in the accounts of the debt balance for this.

Q339 **Nigel Mills:** We really are losing £1.7 billion a year in fraud and error on UC?

Joshua Reddaway: Not 1.7 because that is the gross but not that much lower than that. I will send you the exact amount of the net.

Q340 **Nigel Mills:** Presumably, we won't be seeing the Department's accounts being given a clean bill of health, Gareth—

Gareth Davies: Certainly not while it is going up at the moment. This is well above our materiality threshold for qualifying our regularity opinion. Yes, unfortunately we are stuck with that qualification until there is a fundamental change in this level.

Joshua Reddaway: Every year since 1988-89.

Q341 **Nigel Mills:** Would you think it is now time for taking stock and a full review of what you see it costing, a value for money assessment and probably even an impact assessment being re-done from scratch but done through the 10-year process—to make sure everything is doing what we want it to do and for the assessments to come out positive? Or is that just a waste of the Department's time at this stage?

Gareth Davies: It is always important to take stock of what is happening and are things developing as expected or are there unexpected features of this that need attention? Definitely this kind of continuous review is required. Whether it is a "Stop everything—we are going to take a fundamental review" is obviously a policy question that is not for us.

I think we are a long way down this road and replacing UC completely with something else would be another major project with a long implementation timetable. Whichever choice is made, it needs to be informed by a good understanding of what is happening. We will continue to carry out the reviews of the kind that we are reporting here. It will be a regular feature of our programme just because of the size of the scheme and the impact on public money. We will continue to our bit, but it is obviously a matter for the Department whether it carries out a fundamental review.

Q342 **Nigel Mills:** Would you urge the Department to do a full equality impact assessment? We had one at the start of the Government, eight or so years ago and since then we have had piecemeal ones as they have made incremental changes. Do you think there is a case for going back and doing a full impact assessment given how many changes there have been and how different the world looks now compared to eight years ago?

Gareth Davies: Yes, I think the 2018 update included a fairly substantial impact assessment. Joshua, do you want to—

Joshua Reddaway: Nigel, did you say an equality impact assessment?

Nigel Mills: Yes.

Joshua Reddaway: Yes, so the full business case had an economic impact assessment and there was an equality impact assessment at the beginning at the policy. My understanding is equality impact assessments are often done at the beginning rather than halfway through, but we are clearly calling in this report for better understanding of the different impacts on different groups, which is, in essence, not an equality impact assessment which is ex ante but equality—what is actually happening—ex post.

Q343 **Nigel Mills:** Different language, but much the same idea: we ought to have a comprehensive approach to that rather than just a piecemeal one, basically tinkering around the edges or something, just to make sure that we understand the full impacts for everybody?

Gareth Davies: Yes.

Nigel Mills: Thank you.

Q344 **Chair:** Can I just raise one final point with you? When the Universal Credit system was being built, we were told it was going to be done in Agile and that there would be lots of benefits from this—for example, changes could be made more quickly than was the case in the past. Do you think the benefits we were told we would get from Agile are being realised in case of Universal Credit?

Gareth Davies: We are seeing strengths and weaknesses play out. We have just seen a big strength of the ability for it to scale up with almost no notice and to do so very successfully in performance terms. I think that is a very positive feature of what has been built and the way it has been built. I touched earlier on what I think is one of the downsides: the difficulty with something of this scale being able to adjust the way it creates structured data. We are talking about vulnerability as a good example of that. That is one of the problem areas in the way this is playing out. There is learning in both directions so far.

Q345 **Chair:** Thank you. You have given us extremely interesting evidence. I suspect we could have gone on a lot longer than we have been able to but thank you both very much for the work that went into this report and for your evidence to us this morning. Thank you.

Examination of Witnesses

Witnesses: Jonathan Davidson and Nisha Arora.

Q346 **Chair:** We will move on now to our second panel. Both our witnesses for this session are on Zoom. Could I ask you both to introduce yourselves to us, starting with Jonathan, if I may?

Jonathan Davidson: Good morning, everyone. My name is Jonathan Davidson, I am the Executive Director for Retail Supervision at the Financial Conduct Authority. I think the most important part of that is maintaining standards among about 38,000 firms that are involved in the provision of consumer credit.

Nisha Arora: Thank you. Yes, I am Nisha Arora, Director of Consumer and Retail Policy at the FCA. I am responsible for all our retail policies and rules, including the area of consumer credit and I also work on vulnerability.

Chair: Thank you both for joining us. The first question is from Dr Ben Spencer.

Q347 **Dr Ben Spencer:** I would like to go through two areas with you and broadly what we can learn from the work that you have been doing, first around your experience of regulating payday lending and then moving forward to affordability assessments.

I start with payday lending. It strikes me that there are quite a few similarities between some of the issues with payday lending and those we face with advance payments in Universal Credit. Could you just go through what you found when you started dealing with payday lending—the issues that you have come across and the approach that you took in terms of the solutions for that?

Jonathan Davidson: I would be happy to take the question on the payday lending.

We took over the regulation of consumer credit from the Office of Fair Trading about six years ago, I think it was, and it was a very large number of firms as I have already mentioned. We very much prioritised how we would bring up standards to prevent harm in the harm to consumer.

Probably before I even talk about the payday and how we did it I will talk about the two forms of harm that we were very focused on. First was the harm that consumers became trapped in or took on debt that they could not afford to service, to repay and meet the interest charges, in such a way that they potentially were unable to meet basic living expenses or, even worse, they lost their home and shelter.

As you might imagine, both vulnerable consumers and payday lenders were a very high priority because with a payday lender the interest rates are extremely high and with a very high level of interest there is always a danger that a consumer could become trapped. They could never afford to meet the repayments and particularly the high interest charges so they end up trapped in a cycle of debt which affects the day to day ability to maintain even a reasonable standard of living.

What we focused on was writing, essentially, rules that focus on saying essentially you cannot lend to somebody unless they can afford to repay you without the harm that I talked about on a reasonably predictable basis. Therefore we required the firms to make some assessment of affordability to the consumer. I should just point out that affordability to the consumer is different to creditworthiness that they might pay back. It is possible that consumers will prioritise paying back certain debts and they will go without food.

I have been to citizens advice bureaux where they are talking about financial advice and dealing with problem debt, but they will proudly show you the foodbank and the reason is that immediately they are given the advice they turn to the people and they say, "By the way my children haven't eaten for several days".

We focused on affordability, and Nisha can talk a bit about affordability and how we set the rules, but it basically said you have to make an assessment as to whether the loan repayments involved are going to be affordable to the customer.

The second area that we focused on is what we call forbearance: when it turns out that, despite all good intentions, the customer ends up in difficulty and cannot meet their loan repayments. Again, in a sense, the same harm results; we are trying to avoid that harm—that important payments, utilities, heating your house, affording food and so on and so forth have to be affordable but also in a sense that the consumer has provided some kind of space before very strong action is taken to enforce the debt.

We call that forbearance, which is that the consumer has to be given the opportunity, if you like, to try to work out what would be an affordable repayment schedule and in the meantime the firm has to allow them time to do that before it takes any precipitous action. Also the firm has to allow them the ability, and refer them indeed, to free debt advice of that kind provided by StepChange or the Citizens Advice.

The reason for that, the independence, is a lot of people who get into difficulty with payday and so on, actually have what I call a cocktail of debt so there is more than one provider in place. They need independent advice on trying to come up with a payment plan to deal with the problem debt in a way that they can afford and it is not just one firm.

The only other thing to say is that it is very important that there is transparency into what the debts are and that the consumer at all times knows where they are. Although many consumers are vulnerable and they, therefore, need help, wherever possible we believe it is important that consumers get the help to help themselves. If they do not understand their debt position and where they are, they are going to end up in difficulty.

The Consumer Credit Act, which governs the rules, if you like, the legislation around it, requires very clear statements setting out where the customer is but also what is called in the trade the NOSIA, the notice of sums in arrears, so that they know exactly where they are on sums that are in arrears. Indeed, if those statements are not provided, under the Consumer Credit Act in many cases it can make the debt unenforceable, so it is quite an important point.

What we have done is applied those principles very strongly to firms. As a result, with payday lenders it has meant that a lot of customers that they would have previously lent to—they may have been very profitable customers—and caused a lot of harm to: that market has shrunk quite considerably. Many payday lenders have struggled with the fact that they are required to pay redress to customers for the harm they caused by lending them money that they could not afford to repay. The market has shrunk quite considerably, but those are the principles involved.

Q348 **Dr Ben Spencer:** Nisha, did you want to come in there?

Nisha Arora: Yes. I can take you through a little bit more about the affordability assessment if that will be helpful.

Basically, what we require is that when someone is entering a credit agreement, before they enter that or before they get a significant amount more of credit, the lender needs to undertake an affordability assessment. How in depth that is depends on the nature of the loan and it depends on the length of the loan. We say it needs to be proportionate.

The objective, as Jonathan said, is that while we want people to get credit, we want to ensure that people are protected from credit that is simply unaffordable for them and that has an adverse impact on their financial situation. That is what we want to avoid. We say to lenders, "It is not just about your credit risk; it is about the risk to consumers. That is what you need to look at when you are making this affordability assessment".

I will say look at a consumer's income, look at the income they have and their savings, but also look at their expenditure, look at all of their non-discretionary expenditure—so that is their priority debts, debts that they have to pay legally for statutory reasons because it is secured perhaps on goods or land—and their utility bills, look at their other debts, other contractual debts they might have and, importantly, look at their essential living expenses. By that we mean those that are hard to reduce in order to give the consumer a basic quality of life, because that is important. Those are the things that a lender has to look at.

Then when they are looking at the impact on the consumer and considering whether the loan is affordable, they need to consider whether they can take on that loan without having to borrow more to repay it, because what we do not want is an escalation of borrowing in order to pay another debt. Can they do that without failing to pay their other debts, their other contractual and statutory debts? Can they afford that without making repayments that have a significant financial impact on their financial situation, their ability to pay for essential living expenses and their debt?

That is essentially what we require of lenders to assess, the extent to which they have to do that. As I say, it is meant to be proportionate and flexible but it is a really core, important part of our rules.

Two other things to mention is we also ask lenders to look particularly at people who are in financial difficulties and particularly those who may be vulnerable and to consider that as well when they are making that affordability assessment.

Q349 **Dr Ben Spencer:** Thank you. That is very helpful. You anticipated in advance the next question I was going to go on to about additional measures for people in low-income consumer markets. In addition to that, though, could you give me a ballpark figure of what proportion of income repayment you would deem affordable in the low income market? Is it possible for you to give me some sort of level? What would you deem as too much in terms of a proportion of repayment coming out of your income?

Nisha Arora: I do not have figures; we can find out if we have figures on proportions, but I think our benchmarks are issues such as essential living expenses. What there is is an industry standard called a single financial statement, and that comes in at the forbearance end of the scale where people need to write down their income and expenses. Again, that is where we want the lenders to make an assessment of what is and is not affordable and look at some of those essential living expenses.

The sorts of living expenses will be food on the table and utilities and some of those basics that we would expect to be able to be paid. I can see if we have figures on proportions, but there is material out there that sets out definitely the types of income and expenditure that we think are the basics and that we think lenders need to take into account. Debt advisers obviously also use that sort of formula as well.

Q350 **Dr Ben Spencer:** So I have understood the best practice, as it were, you have a very important principle of transparency. You have what sounds like quite a thorough assessment going through a variety of components of information that you are collecting, with particular sensitivity and thoroughness in low-income markets, looking at essential living costs and issues around forbearance going forward in terms of taking on debt to service debt. If a regulated firm did not go through this thorough process, would you consider it consistent with your principle 6, treating customers fairly in the way they go about their business?

Jonathan Davidson: We will continue looking to make sure firms are meeting the standards imposed, and if a firm was causing harm to consumers by making unaffordable debt, we would regard it as a breach of principle 6. We would also look at the specific rule breaches and we would take steps to make sure not only that they abided by the rules that Nisha laid out, but we would also ask them to consider the harm that they had created and provide redress to put customers back into the position, essentially, that they would have been if they had not been in breach of the principles and the rules.

Q351 **Dr Ben Spencer:** Thank you. That is very helpful. I would be very grateful if you could, as you suggested, forward on the more detailed breakdown in terms of proportions of income repayments when you take into account the affordability assessments and what would be deemed too high. I am going to invite you to answer as a ballpark figure: would 25%, for example, be too high as a proportion of income payments or would it be more in the low teens?

Jonathan Davidson: It is very difficult to answer because one of the key principles here is that our rules are around the individual circumstances of the customer and they vary very considerably. For people on very low incomes, the amount of disposable income available to service debt tends to be very low, but there are many factors, including the number of people in the household, what their incomes are, and what their rent arrangements are. We say the obligation of the firm is to take, in a sense, reasonable steps to establish what it is, but the reality is that for vulnerable consumers on very low incomes with very low savings, their amount of disposable income typically available to meet high-cost debt service is going to be relatively low.

Indeed, we have done some work on, for example, what one of the universities I talked to talked about: precarity. There are a large number of people on volatile incomes and the level of savings they have is very low, so they are vulnerable to financial shocks. To give you some sense, we think about 40% of people on Universal Credit have no savings or investments whatsoever. In the general population, that is about 12%. The resilience of people going on to Universal Credit, the amount of disposable income that they have to service debt over and above their essential living expenses: I cannot provide you specific numbers on that. If a firm came to me and said, "We have this rule of thumb", we would say, "No, you need to do proper, individual circumstances". But I think it would be relatively low.

Nisha Arora: Yes, and I would say the concept of assessing individual circumstances is something that runs through all of our legislation, right from the affordability assessment through to forbearance. So much depends on, say, the term of an agreement, the interest rates, a person's individual circumstances. It is key, and that is what we want from firms: to consider customers' circumstances and what is appropriate for people, both what is affordable but also in terms of repayment when people get into financial difficulty.

Dr Ben Spencer: Thank you. That has been extremely helpful.

Chair: Thank you very much. I am going to slightly change the order at this point and come next to Sir Desmond Swayne.

Q352 **Sir Desmond Swayne:** People coming on to Universal Credit often discover that there are large debts, sometimes stretching back 15 years, that they were not aware of and they are about to be required to repay immediately. Would that be tolerable in the consumer credit sector? Is it reasonable to expect someone to repay a debt that they did not even know they had?

Nisha Arora: No, in the consumer credit sector—and Jonathan has mentioned this briefly—we have a raft of information requirements, both pre-contract and through the lifetime of the contract, and particularly when people get into difficulty.

Our aim there is that people need to know how much they owe so that they can manage their finances, they can make informed decisions, they can manage their repayments, and then they can manage how they are able to get out of trouble if they do get into financial difficulty. Overall, we would expect, because of those information requirements, consumer credit customers to know their financial position, whether they are in debt and what the level of those debts and those arrears are.

Just as a bit of an overview of the sorts of information provisions that we require, there are periodic statements that are required, generally either annual or monthly periodic statements that need to be given, whether or not the customer is in arrears. Also, if the customer asks for information or a debt adviser asks for information, then the lender has to give them information about their levels of arrears and the balance that is owing.

As Jonathan said, importantly, when someone gets in arrears, so when they have missed two payments, the lender has to give them a notice of that arrears level, that sum of arrears, and that again is so that they can manage that debt down and look at all their options for managing that debt. They give them their notice and then they need to follow up with regular notices while the customer stays in arrears.

Finally, if the customer gets to a point where it looks like they cannot repay, it looks like they may well be defaulting on their debt, before the lender decides to take any actions, maybe trying to end the agreement to call in the debt or take repossession, they need to give them a default notice I think 14 days before taking any action.

There are a number of formal notices and other information requirements throughout the process and, as Jonathan mentioned, the sanctions for not complying with those are quite significant in terms of either the lender cannot get interest perhaps during the period of non-compliance or the agreement may be unenforceable during that period of non-compliance.

Q353 **Sir Desmond Swayne:** Should there be a time limit going back in terms of when the debt was incurred?

Nisha Arora: In terms of the principles that we apply, the general principles around the Limitation Act apply to a raft of agreements and contracts, including consumer debt. I guess our general provisions around time limits and a statutory bar come from the Limitation Act rather than our specific rules and that provides—the provisions are complex, but for the most part for consumer credit debts they are advised of a six-year rule, so that from the time of the cause of action—generally considered where the customer formally defaults—the lender has a six-year period during which they can take proceedings in court, but that can be extended where the borrower acknowledges the liability or makes a payment.

If the proceedings are not brought, then a customer has a defence to those proceedings. The debt still exists technically, but if the customer says, "No, it is statutorily barred; I do not want to repay" then the lender has to cease asking for that payment. In Scotland, it is five years rather than six years.

We also have rules that build on the Limitation Act and say if the firm has not made contact for that period of six years, then they need to cease recovery through the courts or otherwise from the customer. I guess as a matter of policy it is the contact for that long period of time. If there is no contact for six years, then we would not expect, we would not want to see debts being recovered.

Jonathan Davidson: Can I add something else that might be helpful to you? In the consumer credit world, in the case of the presentation of a large sum for immediate payment to a customer who is in arrears, essentially what we say is that a firm that does that and ignores a reasonable proposal that a customer or, indeed, a debt counsellor acting for them—if the customer says a reasonable proposal for repaying the debt in a way that is affordable, a firm that refuses to let them do that and just says, "No, you have to pay it all now" we would regard probably as likely to be contravening principle 6 that was referred to earlier—that is, you must treat customers fairly, essentially.

Q354 **Sir Desmond Swayne:** No one is demanding the money now with Universal Credit, but this is very much a normative question. Are we barking up the wrong tree entirely by trying to make this comparison between debt in the Universal Credit system and consumer credit?

Consumer credit is when the lender goes into the transaction with his eyes open, having made an assessment of the ability of the customer to repay, and hey, there is a risk/reward ratio and some debts do not get repaid. Here, we are dealing with people who have come to the community, in effect, because they are in need and receive a payment in consequence, and we are suggesting that that could just be written off. Isn't there a moral hazard there that does not apply in the consumer credit sector? I am really asking your opinion, aren't I?

Jonathan Davidson: I think there are some similarities and differences. There is a huge dissimilarity, which is that there is interest payable and debts mount up in the consumer credit sector. The principle that is worth considering is the question about if you are setting up for repayment of an advance or a debt in the public sector, the principle of trying to come up with a payment schedule that is affordable, if you like.

It is worth noting that we do not require firms to write the debt off, but in practice what happens is that we do require them not to make it worse by continuing to rack up interest necessarily and to consider appropriate proposals. There is no rule requiring a write-off. That is not a suggestion. I hope you have not taken that suggestion that we require write-offs. Whatever the schedule is, it is about affordability without putting someone basically into a foodbank, for example, which is a concept that might be useful and transferable.

The second one is the notion of forbearance. When someone has embarked on this, it is an affordable schedule, at least on a predictable prior basis, but in reality things happen—somebody gets sick or whatever happens. When they are in financial difficulty, there is a thought about allowing them time to try to figure out and come up with something else before any precipitate action is taken.

I think those two things are potentially worth considering that could be transferable because they are both about avoiding the harm of the thing we started out this morning hearing about, which is people going to foodbanks; in other words, they cannot meet their essential living expenses.

Chair: Thank you. I think Debbie wanted to come in here with a quick point.

Q355 **Debbie Abrahams:** Yes, a very quick point. Building on what Sir Desmond has said in terms of the moral hazard and so on, I have had a constituent, a police officer, who had a brain haemorrhage and then, 10 years after being in receipt of working tax credits, in the process of recovering from this brain haemorrhage, she was then presented with a tax credit bill that she was not even aware that she had. What do you think the moral position of that would be for somebody in the private consumer credit business, let alone the Government?

Nisha Arora: With our rules, that is something we would not expect to happen for a couple of reasons: first, because of the information provisions that I talked about and the need in the private sector for people to be able to manage their debts and make informed decisions and be able to take responsibility. Managing their debts means they need to have that information throughout. It also means they need to have time to repay their debt—so, as Jonathan said, not having unexpected extraordinary debt placed on them—and time to repay that debt sensibly. All of those would mean that we would expect contact, we would expect proper forbearance, and we would expect an agreed repayment plan to be put in place in order to help someone manage their debts.

It might be something you want to pick up separately, but also when someone is in a particularly vulnerable position we expect more of firms because vulnerability creates greater risks for consumers. It creates greater harm for consumers in being able to make decisions and manage their money, so based on our consumer credit rules, but through our principles as well, our idea of treating customers fairly, we have expectations on firms that they need to do things differently and to take greater care in the treatment of vulnerable consumers.

Q356 **Steve McCabe:** Good morning. I want to ask a couple of questions about the repayments of advances and how that works in Universal Credit and in the private credit sector. We have had a number of organisations that have told us that the DWP should offer flexible, individualised repayment rates for each claimant, set according to their circumstances, rather than a fixed rate. Does such a thing exist in the consumer credit market?

Jonathan Davidson: I will take this and Nisha can chime in with the policymaker's perspective. We have essentially two approaches. When the debt is first provided, we do not have any requirements about establishing a repayment schedule that is suited to the individual consumer. We do not have any rules about it; we just say whatever it is, it has to be affordable to the consumer.

What tends to happen, therefore, when the loan is first made is the firms have a standardised product. If it is a payday, it will be repaid within a month. If it is a credit card, then we are all familiar with the payments, a minimum payment due and so on and so forth. They tend to be standardised and not tailored, but what is tailored is the assessment of whether the customer can afford it.

It is a different story if subsequently down the line the customer gets into difficulty and cannot meet the scheduled, pre-agreed, contractual payments. At that point we say that whatever solution is put in place has to be adapted to that customer's individual circumstances. That is a requirement, and I think the reason for that is that in a sense the standardised approach no longer works because the customer is already in the debt, so then you need something that is adapted to their individual circumstances.

When we say individual circumstances, the individual circumstances will be complex because it is not just the single debt that you have to whoever has made the loan, they will have other debts. They will have other obligations. They will have other things going on, which is why we require firms to refer them to someone who can holistically—free debt advice—help them to work out what the most important debts are to deal with. Typically, they would say, "Please don't get yourself put out on the street, so pay your mortgage payments, meet your rent payment". I have heard the debt advisers say, "Have you paid your TV licence?", the reason being if you do not pay that, that is a criminal offence, or at least that was my understanding, and it is also a very large fine and so on.

What happens is they get advice on how to prioritise their debts, but they then will typically with a debt adviser go back to all of the debt providers and say, "Here is an offer of what we think is affordable that the customer can actually afford to repay and here is your share of what they can afford to pay" to each of those providers. Does that help?

Q357 **Steve McCabe:** Yes, that is fine. I was trying to work it out. The main distinction that it seems to me you draw is it gets individualised at the point of repayment, when people are in difficulty, but there is not much individualisation at the outset—that is just an assessment of whether or not you qualify. If I ask you to cite two really good examples of how the private sector helps people who are struggling with repayments that could be translated into the Universal Credit or the benefit system, what are the things you are aware of? What are the two things that really stand out where the private sector is really good at helping people who are struggling with repayments?

Jonathan Davidson: Let me give you a real-life example; this is from a firm. One firm had a consumer who was a long-term sickness absence from work and could no longer afford to meet their credit card payments. The consumer wrote to the credit card provider and said, "I need help". The firm in question called back and said to the consumer, "In advance of the formal response for help, we have frozen the interest and charges for several months to give you time to come up with a plan". Subsequently, the firm also accepted a proposed lower monthly payment that the customer said they could do, and then the firm said, "Given that you are a vulnerable consumer and we really want to help you, we are going to put your account with a specialist support team and that team will not then sell the debt on to a debt collector". Those are the sorts of things.

What do we like about that example? What do we like about that firm? First, they were responding to signs of vulnerability, but they were flexible in terms of adjusting to the individual's circumstances and they were thinking about what is in the real interest of the consumer. They were not just turning around and saying, "We will write it off". They were getting the money. That would be an example that is very much on this theme of making sure that the customer is treated fairly, given the financial and vulnerability position that they are in.

Q358 **Steve McCabe:** Okay. That happened, but that required the customer to alert the credit card company in the first place that they were in difficulty. Presumably, that is the only way the credit card company could respond, is that right?

Nisha Arora: There are also more proactive provisions that require firms to monitor payment records to identify issues around financial difficulty so that they can take action as well. Yes, quite often it might be a consumer phoning up because they have difficulties, but there is also a general monitoring provision for firms.

Q359 **Steve McCabe:** What does that mean, general monitoring? Is that like missed payments?

Nisha Arora: Exactly, monitoring missed payments. The other thing we ask now of firms as well is again when it comes to vulnerabilities if they are aware that people in their market or certain people have vulnerabilities, then to be able to monitor that. Not each and every individual person, but if they identify issues that might indicate a problem—for example, lots of missed payments or an inability to manage money—that might give a trigger or a signal to the firm and then we would expect them to respond in a positive and proactive way to help the customer.

Q360 **Steve McCabe:** Thank you. Finally, this issue of getting a deferred payment or reducing your repayments if you get into difficulty, how easy is it to get a reduced repayment or defer your repayments in the private credit sector? How quickly can I do that? If I discover I am in difficulty, is it a phone call away or is it a more complicated process?

Jonathan Davidson: It is a phone call away. There is an obligation on the firm to respond to customers in financial difficulty by—I think the wording is "considering appropriate forbearance", which would be suspending payments and so on and so forth as soon as they are given notice.

Q361 **Steve McCabe:** How long can you get repayments suspended for?

Jonathan Davidson: I think it depends on the customer's individual circumstances. I do not think we specify periods. It is about having some engagement with the customer and at least I think there may be a requirement that they are allowed—Nisha may be able to tell me—up to 90 days before they are allowed to take action to recover the debt if they are in arrears, which is enough time for them to get advice and come back with a proposal and get themselves into a position to say, "Look, this is what I can afford to repay. I would like to repay you. Here is what I can afford" and for them to consider it. They must consider it. They cannot just ignore that.

Nisha Arora: I think things like payment deferrals are generally used for relatively short-term issues because in the commercial sector obviously interest is accruing on the debt. What we would need to manage there is an assessment of what someone needs as a short-term measure against a longer-term escalation of debt, which might lead to a longer-term inability to pay.

Those different types of forbearance measures, whether that is suspending or reducing or waiving interest or allowing token payments for a short period of time or repayment deferral, some of those would depend on whether it is a short-term issue or a longer-term one. As it gets into a longer-term issue, that is when issues such as debt advice, looking at the holistic picture and other debts, comes in. Perhaps probably after about three-plus months, where the person has not been able to recover, then the firm may start taking a different approach because there may be less of an expectation that the person will be able to recover. That is when the firm might start freezing interest and charges because there is not much hope of recovery, potentially selling off the debt and moving into more of a situation where there is proper management of the debt.

Steve McCabe: Thank you very much.

Chair: Thank you, Steve. The last question is going to be asked by Selaine Saxby.

Q362 **Selaine Saxby:** In light of the current situation with the Covid-19 outbreak and its impact on some people's finances, do you think there is anything else that lenders could be doing to better support their customers at this unique time?

Nisha Arora: When the crisis started a number of months ago, we set out a number of expectations for firms to deal and help support people through that initial income shock and that uncertainty and to give them temporary relief from payment and some of the issues we have been talking about just there, where people might not have been able to pay and they did not know when they were going to be able to get back on track.

We wanted that to be simple, so what we asked lenders to do was to give people a payment deferral, so suspend the need to pay for a certain time, for up to three months. Interest would be accruing but they would get that temporary relief. We asked them for an initial three months and then we reviewed that and asked lenders to do that for a further three months, unless that was not in a customer's interest. We are seeing a lot of people took advantage of that. In the consumer credit world, it was about 1.7 million customers, credit card and personal loan customers, taking advantage of that.

Many of those customers will be getting back on to their feet—we know a lot of them are now able to repay—but many will need further support. We are looking at what further support people may need and what we will be asking of lenders for that further support, both after people have already had their payment deferrals but also where people may be newly in difficulty in the coming months due to, for example, income shocks, job uncertainty, local lockdowns, national lockdowns reoccurring.

We are looking at that right now and consulting and thinking about what that support might look like, but our principles around that so far are around asking lenders to provide tailored support, but tailored support that does take into account the external circumstances. So, should they be giving short-term support because someone might just need a few months to get by; should they be giving longer-term support because someone is in longer-term difficulties; making sure they review that support; importantly, asking lenders, as we do, more generally to take account of customers who are vulnerable, think about the extra support they may need; again, emphasising the need to help people with money management and refer them to debt advice; and make sure you have staff who are trained and capable to help respond to those situations.

Our emphasis now is on making sure people have the tailored support they need to get through the crisis, I suppose, and the impacts as those unfold.

Jonathan Davidson: I would add that we are working very hard with the industry to make sure there is sufficient capacity in the industry to treat customers well, to treat customers fairly through this. What does that mean? As we have already said, when customers are in financial difficulty, the solution needs to be tailored to their individual circumstances.

Historically, that has often meant that they either speak to somebody by telephone or in person, because it is quite a detailed conversation, or they speak to a debt adviser, the same thing.

We are preparing a contingency plan, or working with the industry to prepare a contingency plan, about making sure that if there needs to be what I would call an automated solution whereby customers can literally go online and have some options that they can decide are most appropriate for them, that that is done in a way that does not create a one-size-fits-all and all the harm that goes with that.

The second thing is finding and recruiting internally—a lot of banks are recruiting internally—to create advisers who can have those proper conversations with people who really need conversations to tailor what is going to happen. We are also working with the charitable debt advice sector to work out how to build them the appropriate capacity to deal with any reasonable contingency about the volumes of people who will turn out to be in problem debt.

We do not know how many people will be in problem debt yet. One of the interesting features of the Covid crisis is that in January we think that outstandings in consumer credit were about £224 billion. That has fallen quite significantly: by the end of June, it stood at £200 billion. A lot of consumers have responded by trying to reduce their debts and not take on more debt, but countervailing that is the fact that we do not know what the impact on the job market will be at the end of some of the support schemes and so on, so we are preparing for that contingency. Again, coming back to this point: it is about making sure there is good advice and that the solutions that are brought up are tailored to people's individual circumstances.

Q363 **Selaine Saxby:** Thank you for that. With the specific case of the DWP, which has temporarily suspended some repayments due to the outbreak, these have now resumed. On balance, do you think that is a case of one-size-fits-all and they should have perhaps not resumed them so quickly, or do you think on balance it was the right thing to do and then deal with the others as specific cases?

Nisha Arora: It is difficult to speak on behalf of what DWP has asked. From our perspective, what we have said and I suppose recognised is where people can get back on track we are encouraging them to do so, and many people have. A large number, the majority, of people who took payment deferrals have been able to get back and pay. In that context, it is important they do so because interest is racking up.

When they do that, though, one of the things we have said is they might not be able to repay in accordance with the original term of their agreement. They might need longer to repay that, and we say to lenders to sit down with the customer and, if they need further time to repay, make that arrangement and also explain to them whether that might have a longer term and a higher impact on what they have to pay overall under the agreement.

Again, even if someone can repay, we say to them to have a discussion with them about how they can do that and whether that is a full repayment or a partial repayment. When we did review our payment deferrals, we recognised that some people may want to be able to pay a partial amount and might not be able to get fully back on track.

Overall, we are trying to get people back on track, but we are also saying to lenders to think about whether it is all or partial repayment and the terms of that repayment, whether they can do it with a shorter or a longer time. Then for people who cannot get back on track—we recognise that, hopefully a minority but some people—that is when that further tailored support comes in that we would usually require lenders to do and that we will be emphasising and expect to emphasise for the coming months, the issues that we just discussed being particularly important around tailored support and the need to recognise long-term and short-term impacts on customers in the coming months.

Jonathan Davidson: The only thing I would add to that is in this point about one-size-fits-all I hope we have picked up that in the consumer credit sector, given the circumstances of individuals and what they can afford when they are in financial difficulty varies so considerably depending on their financial situation, their employment situation and so on and so forth, that we believe that one size does not fit all, particularly for commercial debt. That being said, we do recognise that there are some debts that we in a sense say are priority debts that need to be taken into account before the consumer credit sector gets to look at them. Rent and so on, some debts we would say the consumer credit sector needs to consider take priority because of the consequences of not meeting them for the consumer.

Chair: That has brought our questions to an end. Thank you both very much indeed. You have given us a very interesting perspective on some of the points that we are thinking about and it has been very helpful to have your input this morning. Thank you both very much for being willing to join us. That brings our meeting to an end.