

Government response to the House of Commons Work and Pensions Select Committee's third report of Session 2012-13

Universal Credit implementation: meeting the needs of
vulnerable claimants

Presented to Parliament by the Secretary of State
for Work and Pensions by Command of Her Majesty

February 2013

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Introduction

1. The introduction of Universal Credit from October 2013 brings radical changes to the benefits system. It is a new, single system of means-tested support for working-age people in and out of work. This will be much more coherent than the current, complex system of more than thirty benefits, with many more potential combinations of benefits and additional premiums. Support for housing costs, children and childcare costs will be integrated into Universal Credit and it will provide additions for disabled people and carers.
2. Universal Credit will substantially improve the incentives to work. Around 1.1 million households would keep more of their earnings when starting work of ten hours per week. Furthermore, 3.1 million households will have higher entitlement, with around 75 per cent of these households in the bottom 40 per cent of the income distribution.
3. The Government welcomes the ongoing interest of the Work and Pensions Select Committee in this fundamental reform of welfare provision and delivery.
4. On the 22 November 2012, the Work and Pensions Select Committee presented its report to the House. As the Department for Work and Pensions' Ministers were aware that the report would not be received until after the principal Universal Credit regulations were near to being finalised, Departmental officials have been carefully monitoring the progress of the inquiry, examining in detail the written and oral evidence presented to the Committee. Wherever possible, the Government has considered the evidence presented to the Committee alongside the policy development and service design for Universal Credit and will continue to do so.
5. In addition, the Government has benefited from detailed advice from the independent Social Security Advisory Committee, who conducted their own consultation exercise with stakeholders during the summer. The Secretary of State for Work and Pensions published his response to the Social Security Advisory Committee's recommendations alongside the main Universal Credit regulations on 10th December. As such, the Universal Credit regulations reflect careful consideration of considerable stakeholder feedback.
6. The central theme of the Work and Pension Select Committee's report is that there is widespread support for the principles of welfare reform, the general direction of policy development, and the aim of strengthening incentives to work and facilitating the move from benefits to work. However there is concern about the impact that the changes will have on claimants with complex needs, such as people with disabilities, homeless people and those that struggle to manage their finances.
7. In Universal Credit we must design a service that brings welfare delivery into the 21st century for the majority, as well as breaking down the barriers that make it hard or risky for people to take up work or increase their earnings. We are also transforming the way that welfare is delivered, providing a real-time feed from HM Revenue & Customs of monthly earnings, reducing the scope for error and fraud and making it simpler and cheaper to administer. However, from the very start of the development

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of the policy, the Government has been absolutely clear that we must and will protect the interests of those who are in vulnerable circumstances or who may face challenges in dealing with a new system. We hope the Committee will recognise the considerable effort and resource that has been committed to developing tailored arrangements that will support those who need it, for example with financial and budgeting support, or to make their claims by telephone or online.

8. The report sets out detailed recommendations for six key areas of Universal Credit – service delivery, claims and payments, Universal Credit entitlement, calculation of income, implications of other policy changes and the implementation programme. For each topic area the Committee's recommendations are set out below along with the Government's response.

The Government's response to the recommendations

Service Delivery

Online access

Committee recommendations:

9. The Committee recognises the benefits of moving to an online benefits claiming system, however they have concerns that some claimants do not have internet access or the skills to use the system. Removing other channels for claiming benefit will not equip people with the necessary skills and capabilities to make the transition to online claiming.
10. The Government should give priority to the early development of an application to support Universal Credit claiming from smartphones, as this is the preferred method of accessing the internet for many people.
11. The Department for Work and Pensions has not presented any plans for how Universal Credit will be delivered to those people who cannot make online claims. Furthermore there are questions over what the Department's target of 50% online claims in 2013 actually means. The Department should provide a detailed explanation of its online targets and a clear statement of its proposed service delivery arrangements, as this needs to be in place before anyone starts claiming Universal Credit.

Government response:

12. The Government sees Universal Credit as an opportunity to tackle digital exclusion, as part of its broader strategy. Research suggests that 92% of advertised vacancies require applicants to have basic IT skills, and therefore those without such skills are considerably limited in their employment prospects.¹ Furthermore, Universal Credit is a service that will put claimants in control of accessing and managing their benefit. To achieve this, the main route to access Universal Credit will be through digital channels. This will free up more adviser time to deliver valuable face-to-face support for those who need it and help to get people into work.
13. This does not, however, mean that the Government will be removing other channels for claiming benefits. The Government made clear in its evidence to the Committee that we are not removing all other channels. Supporting channels such as telephony and high street access will be available and are designed to support Universal Credit online usage and keep claimants using the Universal Credit online service wherever possible.

¹ e-skills UK, Technology Insights 2011.

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14. However, the Government's statement on assisted digital in December 2012 also made it clear that people would continue to be supported in interacting with the Government even if they are unable to access services online.² We will offer claimants the option to claim over the phone or in person, or in exceptional circumstances we will use home visits. We have been working with HM Revenue & Customs and local authority representatives to produce a collaborative position on what type of face to face services need to be provided and how these will fit into the wider provision of Universal Credit.
15. As noted in the Government's evidence to the Committee, we are also installing Internet Access Devices (IADs) in our Jobcentres to help support those who don't have home access to the internet. At present, 706 sites have had IADs installed. In total this will provide 2167 new Devices for our customers. Jobcentre staff will be available to provide claimants with any assistance required in using these devices. We are also exploring the idea of providing WiFi access in Jobcentres, as well as having tablets and laptops available for claimant use.
16. We agree with the Committee's recommendation to develop a Universal Credit smartphone application; our aim is that this will be available later in 2014. However, it should be noted that the Universal Credit IT system is being designed so that it can be accessed from various mobile devices. The system is not reliant on a specific application, but rather will be available to most internet accessible devices from 2013. Our aim is to provide a platform that is capable of further development to meet the challenge of fast-changing technologies into the future.
17. Our target is that 50% of claims which can be made online will be made online in October 2013 when Universal Credit is launched nationally. In addition to that, we initially expect around 45% of claims to be made via telephony, and 5% face-to-face, with a home visit where necessary. The Government believe this is achievable as a survey of existing benefits and tax credit recipients found that 78% already use the internet and, of these, 41% carry out online banking, a transaction considered similar to claiming Universal Credit.³ Indeed, our latest figures show that more than 40% of JSA claims received by the Department are now made online. We recognise that the proportion of online claims will build up as people are supported to use the new system and as we gradually build up the functions and applications that people can access online.
18. We intend to increase the percentage of those claiming online to 80% by 2017 and a plan is being developed to support this channel shift. This will be based on insight into current claimant attitudes and behaviour regarding the use of online services. We are also learning from the experience of increasing JSA online take up and the outputs from six JSA Online Trail Blazer pilots currently underway. These continue to assess the most effective approach to encouraging claimants to go online. We are also working across Government to assess initiatives that have the potential to support the increase in take up of online services. This plan is being designed

² *Government Approach to Assisted Digital* (Dec. 2012), <http://publications.cabinetoffice.gov.uk/digital/assisted/assisted-digital.pdf>.

³ Tu and Ginnis, 2012, *Work and the welfare system: a survey of benefits and tax credits recipients*, Department for Work and Pensions research report 800, <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep800.pdf>.

alongside migration planning to enable design and development of the right support at the right time.

19. The plan will reflect on-going work with partners including the Online Centre Foundation and local authorities to ensure broad provision of access and support. A communication strategy is also being produced to support the implementation of all of these initiatives.

Access for intermediaries

Committee recommendations:

20. The Committee suggests that some people rely on advisers and other advocates to help them to make and to resolve problems with their benefit claims, and that these intermediaries need to access relevant information about the claims in order to provide assistance and to seek explanations from Department staff.
21. It is not clear how intermediaries will be able to access this information when it is held online, unless the claimant is actually present and able to sign into their account. As such, the Department for Work and Pensions should provide more information on how intermediaries will be able to access claimants' online information without compromising system security. The Department should also confirm that they will continue to provide advice help lines for advisers to discuss cases.

Government response:

22. It may be helpful to clarify here that for claimants who need an appointee to administer their affairs, we will continue to provide for this, as under the current system. However, in cases where a claimant, for example, is seeking ad hoc advice from a local welfare advisor about how to claim online or querying the details of their entitlement, we envisage claimants will be with the intermediary when seeking help with their claim. This is no different from the current system, where advisors would normally need to work directly with the claimant to access their personal claim information. In fact, stakeholders have told us that moving to an online service will help them to support claimants as, once the system is fully automated, for the first time they will be able to see everything about the claim in one place including appointment times and entitlement.
23. A task force has been established working with local authorities and the third sector to pull together an integrated framework for localised claimant support. The task force will develop a longer term strategic solution by identifying what support needs to be provided to help non-standard claimants and ensuring that we have the infrastructure and means required to deliver such support. It will set out what support will be available locally for claimants and the expected volumes. Details of the framework will be shared more widely across local authorities and the third sector shortly, to support local planning and ensure help is in place for those who need it when they move to Universal Credit.
24. We are examining what this means for our data sharing protocols. We will ensure that the necessary gateways are in place to enable local authorities and social landlords to share essential data between them and the Universal Credit system, including to provide claimants with the advice and support they need.

Independent advice and support

Committee recommendations:

25. During the four-year period of Universal Credit implementation, the Committee suggests that there will be a significant rise in demand for advice services for claimants. In reaction to such an increase, the Department should work with the advice sector to quantify and provide the extra resources necessary to fund retraining of advisors and the additional advice services which will be required to ensure a successful implementation of Universal Credit.

Government response:

26. The Government recognises the importance of independent advice and support. We are working with the voluntary and advice sector to start preparing for the introduction of Universal Credit. The Cabinet Office and The Big Lottery Fund (BIG) have jointly created a £65 million Advice Services Transition Fund to support the advice sector across the UK, between April 2013 and April 2015, develop new ways of working such as working in partnership with other organisations.
27. As described above, we are developing a Local Support Services framework, which will address what support Universal Credit claimants, including those with complex needs, will require, what particular services they will need and how they will be provided through existing and new arrangements. We recognise that local authorities have a key role in providing existing services and in future delivery models, and as such the proposals for non-online services to claimants will be co-developed with local authority colleagues and representatives.
28. The framework will be the basis on which to build partnerships at a local level and develop the detail for how claimants can best be helped to make and manage a Universal Credit claim and prepare for work. We recognise the importance of registered social landlords and local voluntary organisations as part of that partnership approach. We are actively working with these organisations and decisions on funding will be shared as the detail of the framework develops.

Claims and Payments

Monthly payments

Committee recommendations:

29. Although the Committee understands and accepts The Department for Work and Pensions' reasoning for introducing monthly payments under Universal Credit, it still has concerns for vulnerable claimants who may struggle to budget for a month. Monthly payment is not the norm for many people on low incomes, and many claimants will return to weekly payments when they return to work.
30. Weekly or fortnightly budgeting is not necessarily a sign of poor money management, and the shift to monthly payments may disrupt the existing budgeting methods of

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many households. Financial literacy training is likely to be expensive, and will not solve the difficulties of managing on a tight budget.

31. The proposed exceptions process will be too slow in identifying claimants who struggle to adapt to monthly payments. The Department should monitor the impact of monthly payments in the Pathfinder starting in April 2013, and move quickly to change its approach if this payment system appears to be creating difficulties for claimants.

Government response:

32. The Government is keen that Universal Credit reflects the world of work, where 75% of people receive wages monthly.⁴ Paying in this manner will help smooth the transition into monthly paid work, encourage personal responsibility for finances and support claimants to budget on a monthly basis.
33. We accept that for a minority of claimants alternative payment arrangements may be required in addition to personal budgeting support and have made provision for this in both the regulations and in our service design. The draft Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013 make provision for the Secretary of State to vary the frequency of payment, where appropriate.⁵ This would be time-limited and delivered in conjunction with support to ensure claimants successfully transition to monthly budgeting wherever possible.
34. We will look to proactively use information we hold on the claimant to identify those who may require alternative payment arrangements, for example identifying those claimants with a mental health condition or those who are homeless or recorded as suffering from addiction problems e.g. drug abuse. Moreover, a request for alternative payment arrangements could also be proactively triggered from other sources, for example the claimants' representative, case worker or their landlord. The Direct Payment Demonstration Projects that the Department is currently piloting will help inform the design of Universal Credit; including how and when it would be appropriate to consider a payment of housing costs directly to a landlord in the case of arrears.
35. The Government agrees with the Committee about the need for careful evaluation of this policy. To support effective delivery and a smooth transition, a strategy to monitor and evaluate the impact of Universal Credit has been developed. This encompasses initial policy and process preparation through to the Pathfinder and will continue through to national roll-out of Universal Credit.
36. We have set up an operations centre to both manage the flow of information and resolve any issues around delivery as soon as they arise. As well as reviewing our processes and delivery systems, this will include research to understand the experiences of claimants, staff and our delivery partners. A framework for the

⁴ Bacs Family Finance Survey 2011

⁵ 'Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013' in *Explanatory Memorandum to The Universal Credit Regulations 2013*, pp. 20 – 68.

evaluation of Universal Credit was published on 10th December, and can be found at <http://www.dwp.gov.uk/docs/universal-credit-evaluation-framework.pdf>.

37. In 2013, we intend to publish a consultation inviting views on the publication of statistics on Universal Credit, PIP and other Departmental benefits. This document will set out the plans for publication of official statistics through the transition period for Universal Credit.

Single payment per household

Committee recommendations:

38. The Committee recommends that a single household payment may not be suitable for every household claiming Universal Credit. There is a potential for women to lose out, and money intended for children or rent to not be used for this purpose.
39. Departmental decision-makers should have the discretion to allow payments to be split between two partners in a household, where circumstances make this necessary.

Government response:

40. Under Universal Credit, couples living in the same household will make a joint claim for benefit. Universal Credit will be paid as a single monthly payment, and it will be for the family to decide whose account Universal Credit is paid into or whether it should be paid into a joint account.
41. This arrangement mirrors the realities of working life – evidence suggests that only 7% of cohabiting couples and only 2% of married couples keep their finances completely separate.⁶ However, the Government recognises that in certain situations a single payment may lead to finances being controlled by one member of the household who does not have responsibility for managing the household finances. In circumstances where there is a child within a household and there is friction over finances, we recognise that the child's welfare could be put at risk.
42. Therefore, as suggested by the Committee, the system has been designed so that, where needed, a decision-maker can split payments.⁷ There will be flexibility for how the payment will be split between the household according to individual circumstances. Wherever possible this will be time limited and delivered in conjunction with appropriate budgeting support to help claimants successfully transition to a single, monthly Universal Credit payment.

⁶ Maplethorpe et al (2010), 'Families with children in Britain: Findings from the 2008 Families and Children Study (FACS). DWP Research Report 656.

⁷ 'Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013' in *Explanatory Memorandum to The Universal Credit Regulations 2013*, pp. 20 – 68.

Direct payment of housing costs

Committee recommendations:

43. Although the Committee notes the Government's view that paying the costs of rent to the claimant rather than the landlord will contribute to claimants' financial capability, it expresses concerns that some vulnerable claimants will be unable to manage making regular rent payments and may fall into arrears.
44. Lessons need to be learnt from the current pilots, but wide-reaching conclusions should not be drawn from such small-scale projects. Instead, during the initial phases of Universal Credit from April 2013, claimants who currently have their housing costs paid to their landlord should have the option to continue with this arrangement.
45. The Department for Work and Pensions should publish a clear definition of "vulnerable" groups within Universal Credit, for who it will not be appropriate to include housing costs in their benefit payment. There must be a robust process for identifying claimants who are struggling with housing costs, so they can be assisted before they fall into arrears.

Government response:

46. The purpose of Universal Credit is to improve the quality of people's lives by encouraging them into work and sustaining them in work. Government interference in people's financial affairs can undermine individual responsibility and, by insulating claimants from the sorts of decisions made by those in work, create an additional barrier to work. The current benefit system pre-determines people's ability to manage their own financial affairs based on whether they live in social housing or private-rented housing. This is an outdated and outmoded view of the world which creates a dependency culture and treats too many adults as supplicant children.
47. This is why Universal Credit starts with the presumption that the payment of benefits should mirror the world of work, as far as possible. A single, monthly payment of Universal Credit to the claimant enables them, and not the state, to take financial responsibility. This should, in turn, make it easier for people to make the transition from benefits to work. It is important that we allow claimants to make the same sorts of decisions as those in work and we build claimants' financial capability to do so.
48. This is already the case in the private rented sector, where the vast majority of those in the private rented sector pay their own rent. The opposite is true in the social rented sector, where most claimants have Housing Benefit paid direct to their landlord, even though these claimants share many characteristics with those in the private rented sector. Too often people in the social rented sector move into work and find they are unable to deal with managing their wages and paying their bills. This can often be the cause of them leaving work and subsequently being reluctant to take work. It is therefore right that we make this change for the social rented sector to bring it more in line with the private rented sector. Nevertheless, because this is a considerable change to the way the system operates currently for this group, some of whom have never before had such a degree of financial responsibility, we recognise that it is vital that the transition from paying rent direct to landlords to a single monthly payment to claimants is responsibly and carefully managed.

49. The Department will, alongside this change, provide claimants help with monthly budgeting, and provision has been made within Regulations to make alternative payment arrangements in exceptional cases, such as paying rent direct to landlords. We are not, however, seeking to define "vulnerability" for the purposes of administering Universal Credit. Any attempt to do so would risk some people with complex needs falling outside of the prescribed definitions and then not receiving help that they may genuinely need. As a result full guidance, including financial and vulnerability factors that would trigger a conversation with a claimant about their budgeting needs (including whether they need an alternative payment), will be made available to support staff handling these cases. Third parties including caseworkers and landlords will also be able to make a case for additional budgeting support. We are already working with Housing Associations about how we can work together to identify these families prior to the introduction of Universal Credit.
50. The Department also recognises the impact of paying rent direct to claimants on landlords, including the risk that landlords will face increased arrears. With local authorities and housing associations, we have set up six Direct Payment Demonstration Projects. These projects are exploring how: we can help landlords safeguard their revenue streams; prevent claimants from accruing arrears of rent; and develop alternative payment arrangements for those who need them. We recognise that some of the landlords involved have found participating in the projects resource-intensive, but the initial feedback is encouraging with the vast majority of tenants making rent payments on time and 92% of rent due being collected by landlords.⁸
51. Nevertheless, we are clear that Universal Credit must be designed in a way that protects the financial position of landlords. In particular, we believe it is important to get the safeguards right, including triggers for moving to direct payments to landlords, and the need to put in place an effective process to ensure arrears don't build up. Where claimants are in arrears or fall into arrears they will be switched back so that payment is made direct to their landlord. This will give landlords the security of knowing that payments will be made, and that the long-term accumulation of arrears is not an option under this system. Equally, it will enable us to identify which claimants need help with money advice and debt management, and protect claimants by preventing them from falling into significant debt.
52. The projects are due to run until June 2013. We will of course consider the project findings and the points made by the Committee before setting out the final arrangements.

Bank accounts

Committee recommendations:

53. The Committee expresses concerns that some claimants do not have bank accounts and will therefore struggle to manage monthly payments and housing costs. It welcomes the Government's support for credit unions and the intention to ensure a range of financial product options for claimants.

⁸ *Early Findings of Direct Payment Demonstration Projects published*, (Dec. 2012), <http://www.dwp.gov.uk/newsroom/press-releases/2012/dec-2012/dwp135-12.shtml>.

54. However, these new products should provide the same protection for customers as mainstream banks. It suggests that the proposal to subsidise the first year of customer charges under the new scheme may need to be extended for subsequent years.

Government response:

55. The Government already has in place a voluntary agreement with the major UK banks to offer basic bank accounts alongside their other retail current accounts. The majority of Universal Credit claimants will continue to be paid through mainstream current or basic accounts.
56. Some claimants may need additional help to budget over a monthly period, particularly during the transitional period. The Government are working with the advice sector to ensure that claimants are able to access appropriate budgeting support services to enable them to manage their money successfully.
57. The Government recognises that up to 1.3 million potential Universal Credit claimants currently do not use a transactional bank account to manage their benefit payments. In addition to encouraging claimants to open and use bank accounts, we are also seeking providers who can supply products with extra budgeting functions to support claimants as they move to Universal Credit. Such accounts will be required to meet certain criteria, including offering support to claimants to budget and manage their money, provision for regular payments for housing and other main bills and access to all claimants, irrespective of credit history.
58. The Government is continuing to consult financial providers across the private, social and third sectors about the arrangements for these products, including the structure of any payments by Government, and will announce the detailed approach and requirements shortly.

Universal Credit entitlement

Payments to cover the additional costs of disability

Committee recommendations:

59. The Committee is concerned for how individual disabled claimants whose entitlement is reduced under Universal Credit will access substitute help. Although transitional protection will mean no one will lose out in the short-term, this is not a long term solution.
60. The Department for Work and Pensions should address concerns about the system of disability additions within and outside Universal Credit to meet the Government's commitment to provide generous support to those particular vulnerable groups of claimants and to ensure there is no diminution in their overall benefit package.

Government response:

61. This Government is committed to supporting disabled people and even in these tough economic times will continue to spend around £50 billion a year on disabled

people and services. Recent evidence shows that we spend almost double the OECD average as a percentage of GDP (2.4% compared to 1.3%).⁹

62. In Universal Credit we have taken the opportunity to simplify the current complex rules which have been prone to error and complex and confusing for disabled people. We have replaced seven different premiums with a simpler, two-tier system that focuses support on the most severely disabled people who are least able to work and will align support for adults and children. However, the Government has made clear throughout the passage of the Welfare Reform Bill and in the latest Impact Assessment for Universal Credit, published alongside the main regulations on 10th December, that we are reinvesting all the resources saved from reforming the current disability premiums into the revised elements for disabled adults and children. Even taking into account all the changes announced in the Chancellor's Autumn Statement on 5 December 2012, including the Uprating measures, disabled people will on average gain by £8 a month under Universal Credit.¹⁰
63. The Government believes that the right way to support disabled people who we expect to move towards work is through the work allowances. Households with one or more disabled adults will be able to keep £647 a month (£7,759 a year) of their earnings before seeing a reduction in their Universal Credit.
64. The Department has committed to a thorough process of evaluation for the effect of Universal Credit on disabled people. Where possible, we will undertake specific sub-group analysis, looking at, for example, differential experiences of groups such as low income households, couples, lone parents, long term unemployed, disabled and minority ethnic groups. The externally commissioned work will explore both quantitatively and qualitatively, aspects including labour market outcomes, claimant views and experiences, delivery issues and stakeholder perspectives.
65. Our reforms will create a simpler and fairer system with aligned levels of support for adults and children. More importantly no-one, whose circumstances remain the same, will lose out in cash terms as a result of the move to Universal Credit. Where the total household Universal Credit entitlement would be lower than the household's total existing receipt of benefit and tax credits, Transitional Protection will be applied as a cash top-up to make up the difference. Over time, Transitional Protection will be eroded as claimants' circumstances change, allowing households time to adjust to the move to Universal Credit.
66. It is, however, appropriate to end this protection when circumstances underlying an award are no longer recognisable as those on which the original calculation was made. We would like to draw the Committee's attention to page six of their report, which incorrectly states moving house would end a claimant's Transitional Protection.¹¹ The significant changes in circumstance that will end Transitional Protection are:
- a partner leaving/joining the household;

⁹ Organisation for Economic Co-operation and Development, *Spending on disability and sickness, % of GDP*.

¹⁰ *Universal Credit Impact Assessment* (Dec. 2012), <http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf>.

¹¹ Work and Pensions Select Committee, *Universal Credit implementation: meeting the needs of vulnerable claimants* (Nov. 2012), p. 6.

- a sustained (3 month) earnings drop beneath the level of work that is expected of them according to their claimant commitment;
- the Universal Credit award ending; and/or
- one (or both) members of the household stopping work.

67. If moving house coincides with one of these changes, then Transitional Protection will end, otherwise the amount will be eroded as their Universal Credit award changes. Further information on Transitional Protection can be found at <http://www.dwp.gov.uk/docs/ucpbn-transitional-protection.pdf>.

Childcare costs

Committee recommendations:

68. Despite the fact that the Committee welcomes the decision to extend help with childcare costs to parents who work less than 16 hours a week, it feels that the effective level of support will be less for some families who are currently benefiting from disregards under Housing Benefit and Council Tax Benefit.
69. The Department for Work and Pensions should monitor the extent to which the childcare element of Universal Credit is effective in promoting work incentives, particularly in the context of the high costs of childcare in the UK.

Government response:

70. The Government understands how important good quality childcare is. On 19 June 2012 the Prime Minister announced a commission on childcare to look at how to reduce the costs of childcare for working families and burdens on childcare providers. However, it is important to recognise that childcare providers are responsible for setting their charges and structuring the services they offer.
71. In Universal Credit, the Government will be investing in childcare for people who work fewer than 16 hours per week which will mean that around 100,000 extra families will be eligible to receive childcare support.¹² As we have learned more about the people who will come into Universal Credit, we have updated our assumptions about how much the new support structure will cost and, while the Universal Credit childcare policy has not changed, we have revised our cost estimate and now believe we will be spending an extra £200m on childcare in Universal Credit. The support will be more flexible, result in greater payment accuracy and the overall design will be better tailored to the needs of parents.
72. The single taper and simplified structure of work allowances is fundamental to people understanding that they are better off in work. Of course, in creating a simpler system, there will be a minority of claimants whose entitlement is lower and Transitional Protection will be in place for people who do not see a significant change to their circumstances, which will help mitigate this impact. But overall, the advantage

¹² *Universal Credit Impact Assessment* (Dec. 2012), <http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf>.

will be provision that is simpler, fairer and more generous than anything in the current system. The Government agrees with the Committee about the importance of monitoring this impact of Universal Credit, and as such we are committed to rigorous monitoring and evaluation of Universal Credit from day one.

Housing costs

Committee recommendations:

73. The Committee recommends that the Government looks again at the provision for removing support for mortgage interest as soon as any hours of work are undertaken. It could discourage claimants from entering part-time employment, especially the newly separated and those recovering after a long illness.
74. The Committee welcomes the decision to exclude supported exempt accommodation from Universal Credit, but the Department for Work and Pensions should publish their revised arrangements so that providers can plan ahead.
75. Furthermore, the Department should clarify how the administration of supported exempt accommodation rental charges will operate under Universal Credit, particularly whether or not housing costs will be paid directly to landlords.

Government response:

76. Only around 5% of those currently getting help with their mortgages work part time.¹³ Having a mortgage to pay provides a strong incentive for moving into full-time employment. Part time earnings cannot sustain mortgages in the long term, so those who would be worse off need to re-consider their position with regard to the amount of work they do or the level of their housing costs.
77. The zero earnings rule should not be looked at in isolation. Universal Credit will have more generous disregards than the current system. Unless someone has a very large mortgage, is working only a very small number of hours and receives a low rate of pay, they can still expect to be better off in work even though they lose their Support for Mortgage Interest (SMI). For example, a lone parent receiving the average level of support for mortgage interest who takes up a national minimum wage job will be better off after just 7 hours of work a week and better off than under the current system after 10 hours of work. Clearly such a person would be better off after even fewer hours if earning above the legal minimum.
78. The Government understands the issues faced by organisations that provide housing support for vulnerable people. Such accommodation is often more expensive to provide and this is recognised in the current system. In order to ensure that the income streams of providers are protected, help for those in supported "exempt" accommodation will, in the short term, be delivered broadly as it is now. We will use existing Department for Work and Pensions legislation and funding arrangements to continue to deliver help via local authorities. These arrangements will provide further

¹³ *DWP Quarterly Statistical Enquiry: February 2011, May 2011, August 2011 and November 2011.* As there is no equivalent ESA Quarterly Statistical Enquiry, these part-time figures exclude ESA SMI cases.

protection for claimants and providers as housing costs in these cases will be excluded from the calculation of the benefit cap. As now, local authorities will have the discretion to remit rental payments direct to landlords and we expect this to continue to be the norm.

79. The housing costs of those living in supported exempt accommodation will not form part of Universal Credit but will continue to be met by local authorities using current provisions. Ministers have made clear that providers of this type of specialist accommodation, which includes refuges for those fleeing domestic violence, should continue to receive rent payment direct.
80. Later this year we will begin a process of consultation with stakeholders with a view to exploring the feasibility of a localised funding system for the longer term. Our aim is to develop a system that is flexible enough to meet the needs of individual providers and their tenants. While there is still uncertainty over timing, it is expected that a long term solution will be in place by April 2015.

Calculation of income

Work Allowances

Committee recommendations:

81. The Committee feels that a clear and easily comprehensible earnings disregard system is critical in order to ensure that benefit claimants can work out the financial advantages of returning to work or increasing their hours.
82. As such, more information needs to be published to be clear that the simplified system set out in the draft Regulations achieves this.

Government response:

83. Universal Credit will mean that people find it easier to get into work than they would have under the existing system and creating a single benefit reduces the administrative complexity of moving into work.
84. At the heart of this is a simple disregard structure, now known as work allowances, which is generally more generous than the one offered by the existing system. This means that people will be able to see very clearly how much their household can earn before losing any of their Universal Credit.
85. The Universal Credit work allowances structure and revised Impact Assessment were published on the 10th December 2012, providing detail of how the work allowances have been set to ensure the Government meets its objectives of maintaining work incentives. The Committee may also note that the final system of

disregards is both simpler and more generous than the one originally proposed in the 2010 White Paper *Universal Credit: welfare that works*.¹⁴

Employment earnings

Committee recommendations:

86. There are concerns that the Real Time Information (RTI) implementation timetable is very ambitious and leaves little opportunity for dealing with problems which may arise. It is unclear whether these issues are under control or what measures will be in place to deal with problems as they emerge during full implementation.
87. As such, it requests further information from the Department for Work and Pensions on the contingency plans for receiving earnings information if RTI is not available. Particularly how the online system of reporting would work in practice, and how those unable to manage online accounts can report their earnings.

Government response:

88. The RTI pilot is on track. At present, there are nearly 15,000 schemes covering over 2 million individuals within the pilot. By March 2013 HMRC estimate that there will be 6 million individuals and 250,000 schemes using the RTI system.
89. The RTI pilot began in April 2012 which means there will have been 18 months of live running of RTI before Universal Credit begins in October 2013. The Department will have received information about the running of RTI and its interaction with UC during Phase 1 of Universal Credit before the national roll-out, so should be able to anticipate and mitigate any issues should they arise.
90. Should there be any issues that prevent earnings reporting for Universal Credit through RTI, there are back-up provisions in place for the claimant to self-report. In April 2013, where claimants have to self report their earnings this will be done by telephone, but it is anticipated that online self-reporting will be available after October 2013.
91. If an established RTI feed is in place, in the unlikely event the system fails to report for one assessment period, the Universal Credit award will be paid without requiring the claimant to self report. Any adjustments to reflect a change in hours worked during that period would be corrected in future payment periods, once earnings data is received from RTI or from the claimant themselves.

¹⁴ 'Universal Credit: welfare that works' (Nov. 2010),
<http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf>.

Self-employed earnings

Committee recommendations:

92. The Committee welcomes The Department for Work and Pensions' efforts to ensure that the self-employed are incentivised to increase their earnings, but is concerned that the Minimum Income Floor may discourage entrepreneurship.
93. Furthermore, the differences in accounting methods between the Department for Work and Pensions and HM Revenue & Customs may cause a significant and unnecessary administrative burden to the self-employed. As such, the two departments should liaise with each other, and professional bodies, to address these issues.

Government response:

94. The Minimum Income Floor (MIF) is designed to address flaws in the current system which allows self-employed claimants to receive full state support while declaring low or zero earnings and to prevent people from under declaring earnings. An estimated 100,000 self-employed households currently declare earnings equivalent to 10 hours or less a week at minimum wage. The MIF will incentivise self-employed claimants to increase their earnings to a level we would expect to see from someone with similar circumstances in employment.
95. One of the key aspects of Universal Credit is that it should mimic work and receipt of a salary and therefore will be paid monthly. In order to determine the correct level of award, claimants will have to report earnings monthly. The reporting system is designed to be simple and straightforward to use. Regular reporting will also promote the keeping of basic business records which will help claimants gain a clear picture of their business finances.
96. We have continued to work closely with HM Revenue & Customs to ensure that, where it is feasible, our Regulations around income reporting align with HM Revenue & Customs' proposals.
97. The Minister for Welfare Reform and officials leading on designing the policy have had regular engagement with experts representing professional and taxation bodies who responded to the Select Committee inquiry. Such engagement has been carefully considered during the development of the self-employment policy and will continue as we start to deliver Universal Credit. We are also committed to working with these professional groups and other stakeholders as this policy is implemented to ensure it meets its objectives and is not creating a barrier to self-employment.

Benefit cap

Committee recommendations:

98. The Committee is pleased that the Department for Work and Pensions has made additional funding available to help mitigate the impact of the cap on vulnerable claimants. However, the Department must consider the impact on those in temporary accommodation, which often attract higher rental payments.

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99. As such, the Department should set out how it intends to monitor the impact of the cap, and clarify how the threshold for calculating income levels which would exempt people from the cap will take account of other statutory rights such as sick pay and maternity pay.

Government response:

100. The aim of the benefit cap policy is to achieve long term positive behavioural effects through changed attitudes to welfare, responsible life choices and strong work incentives. It is not reasonable or fair that households should receive a greater income from benefits than the average weekly wage for working households.
101. The Government believe that the cap strikes the right balance between supporting families and providing incentives to work. We feel that £500 a week for couples and lone parents and £350 for single childless people is the right level for the cap which in Universal Credit will be expressed monthly as £2167 and £1517.¹⁵
102. We agree that the impact of the cap on people in temporary accommodation needs careful consideration. The Discretionary Housing Payment guidance for local authorities will make it clear that priority for such payments should be given to those living in temporary accommodation. We have also announced that when Universal credit is introduced the management element (recognising the extra costs involved in managing temporary accommodation) will be separated out and paid directly to local authorities.
103. The Chancellor announced in his Autumn Statement that help towards housing costs for those living in supported exempt accommodation will be disregarded for the purpose of the benefit cap. However, some such households may still be subject to the cap if their benefits, excluding their housing support, exceed the cap levels set.
104. In making this change we have recognised that those households in supported exempt accommodation are likely to be in vulnerable situations and will be paying higher than average housing costs and that they will not generally be in a position to make quickly the behavioural changes required to remove themselves from the cap and therefore they will need additional support.
105. We have committed to a full evaluation of the benefit cap and announced that in 2014 we will publish a review of the initial impact of the cap after a year of operation.
106. The evaluation will use administrative data to capture movement of households into work or into affordable accommodation. In addition to an overall view of those affected by the benefit cap we will want to understand the impact on specific groups such as those in temporary accommodation. We will talk to external experts and key stakeholders to get a full picture of what is happening to these households. In light of the findings we will consider the need for refining the policy and what more evaluation might be desirable.

¹⁵ The Work and Pensions Select Committee report erroneously quoted the level of the cap at £2016.

107. Finally, the Committee asks for clarity on the income levels to be taken into account for the in work exemption from the cap under Universal Credit. Any occupational sick pay or maternity pay (including Statutory Sick Pay and Statutory Maternity Pay) will be treated as earnings and will count towards the £430 a month threshold. Maternity Allowance is a welfare benefit and will not count as earnings.

Implication of other policy changes

Conditionality and sanctions

Committee recommendations:

108. The Committee recommends that the claimant commitment should clarify not only what job-search requirements claimants must fulfil, but also how the Department for Work and Pensions will support them in their job-search.
109. The effectiveness of the new sanctions regime is dependent on the quality of the face-to-face support provided by the Department by Jobcentre advisers. Sanctions should be used as a deterrent and a last resort and staff must be trained appropriately so that they can implement this idea effectively.

Government response:

110. To qualify for Universal Credit, all claimants will be required to agree to a Claimant Commitment, which will record all activities they are required to undertake, including, where appropriate, doing all that can reasonably be expected of them to find work or prepare for work.
111. The Claimant Commitment will be personalised to the individual claimant and for people expected to look for work, developed following a face to face interview in the Jobcentre. For those who are expected to search for work, the Claimant Commitment will set out the work-related requirements a claimant must meet in order to receive their Universal Credit, and the consequences of failing to meet those requirements. The Claimant Commitment will be regularly revised to reflect a claimant's circumstances.
112. The Claimant Commitment is primarily intended as a record of what requirements are placed on a claimant. However, we do intend that the Claimant Commitment will also include information about what help and support a claimant may get to assist them in moving into work.
113. With regards to sanctions, evidence from the UK and internationally shows that sanctions motivate reluctant job-seekers to engage with job search and other labour market requirements. There is also evidence to link sanctions with increased off flows from benefit. As the length of time that benefit is withheld is increased, those who are sanctioned become more likely to flow off benefits.
114. The regime is designed to provide clarity about the consequences of non compliance, tougher sanctions for repeated non compliance, a clear and robust

deterrent against non compliance and an incentive to re-comply quickly for certain failures.

115. The requirements we place on claimants will be reasonable, taking into account their circumstances and capability. Furthermore, an adviser will only require a claimant to apply for or accept a job if it is something the claimant can do. Decisions are subject to an appeal at an independent tribunal. Claimants who meet certain criteria will be able to apply for hardship payments.
116. We agree with the Committee about the importance of training. The learning programme for Jobcentre Plus advisers is regularly updated to reflect changes in policy and ensure advisers have up to date skills to deal with any claimant interaction and support them in making relevant and appropriate decisions on individual claimants. A range of supporting products, including guidance, assessment tools and management frameworks, have been produced to help aid understanding and delivery of the more personalised service.
117. At present, the Department are developing the guidance for staff with the help of stakeholders including, the independent Social Security Advisory Committee, and plan to make information about this available to Parliament before the regulations are debated.

Passported benefits

Committee recommendations:

118. The Committee recognises that finding a way of administering passported benefits under Universal Credit is a complex issue, involving many other Government Departments and the Devolved Administrations. Although there are no easy answers, it is essential to put fair and workable criteria in place to avoid adding complexity to Universal Credit and reducing work incentives.
119. The Committee welcomes the decision to allow all those under Universal Credit to retain entitlement to free school meals, but it wants an indication of what the long-term policy on this will be.

Government response:

120. The Government recognises the vital support that passported benefits provide to people on low incomes and how highly valued they are by the individuals that receive them.
121. The large numbers of passported benefits, all with different eligibility criteria, has given rise to complexity, as recognised by the Committee. The Government is looking to simplify the system under Universal Credit whilst ensuring that passported benefits remain available to those families that need them the most.
122. It is important, however, that any changes to eligibility criteria when Universal Credit is introduced takes account of work incentives and the policy objectives of the benefits concerned.

123. It is the responsibility of the departments that administer the passported benefits to publish their eligibility criteria for Universal Credit. In the short-term we are aiming to support as much continuity as possible, with a broader range of options open to Departments in the longer term.
124. The Department for Education aims to ensure that, as Universal Credit is introduced in 2013, the Free School Meals eligibility criteria are fair, simple and easily integrated into the existing Free School Meals administrative and delivery systems, and that the changes, as far as realistically possible, are cost neutral.
125. Given the complexity of passported benefits across Government, the Department for Work and Pensions and the Department for Education are collaborating to simplify free school meals criteria under Universal Credit, while ensuring that free school meals continue to be available to the families who need them most. We will allow good time to enable schools, local authorities and children's charities to comment on our proposals before we introduce new criteria.
126. As mentioned the current focus is on maintaining continuity of passported benefits during the phased introduction of Universal Credit. Our immediate priority is to introduce Universal Credit in a way that works smoothly with all passported benefits.
127. We are fully aware of the need to consider longer term strategic options for passported benefits and it is our aspiration to continue with welfare reform for people of working age.
128. The longer term strategic options include:
- Decoupling passported benefits from the Department for Work and Pensions benefits;
 - Localisation: this could be localised decisions about how to determine, deliver or verify national eligibility criteria or a move towards localised eligibility criteria; and
 - Implementing the Social Security Advisory Committee's recommendation to consider incorporating entitlement to some passported benefits into the claimant's Universal Credit entitlement.¹⁶
129. The Department for Work and Pensions has committed to working with other Government departments and Devolved Administrations to ensure that the issue of passported benefits both in the short and long term is approached from a wide perspective and any changes are simple, fair and easy to understand.

¹⁶ Social Security Advisory Committee: *Passporting to the future: the SSAC review of passported benefits* (March 2012), <http://www.dwp.gov.uk/docs/ssac-rev-of-pass-bens.pdf>

Localisation of Council Tax support

Committee recommendations:

130. The Committee is concerned that the localisation of Council Tax support will add unnecessary complexity to the Universal Credit system and local variation, undermining the objective of enabling claimants to clearly see the financial benefits of taking up a job or working more hours.
131. Changes to Council Tax support and the introduction of Universal Credit will particularly impact low-income families, and the Department for Work and Pensions should set out its plans to monitor such an impact.

Government response:

132. Council tax is a local issue. Our reforms localise council tax support and give councils stronger incentives to support local firms, cut fraud, promote local enterprise and get people into work. Ultimately it is in the interest of local authorities to design schemes that support positive work incentives, helping to make it clear that work pays and so making it worthwhile to enter work, work more, and rely less on benefits.
133. Government recognises the importance of enabling local schemes to interact with Universal Credit in a simple transparent way that supports work incentives.
134. Where a local authority fails to adopt its own scheme by 31 January, a default scheme comes into force. The Department for Work and Pensions has worked with the Department for Communities and Local Government to devise an approach taking Universal Credit into account in the default scheme regulations.
135. Government believes that this is a suitable broad approach to dealing with people claiming Universal Credit, which helps to support work incentives by controlling the maximum combined marginal deduction rates (the rate at which support is withdrawn as earnings are increased) and ensuring there is a financial benefit to entering employment.
136. Local authorities are free to design alternative ways of dealing with people claiming Universal Credit, and we expect that approaches will evolve over time. However, rather than developing entirely new methods the simple framework set out in the default scheme provides a starting point and local authorities are encouraged to consider adopting this approach.
137. To support this, Government has published updated guidance for councils designing their own schemes advising them on the benefits of adopting the default scheme approach.

¹⁷ *The Local Government Finance Act 2012*, (Oct. 2012), <http://www.legislation.gov.uk/ukpga/2012/17/enacted>.

138. In line with Government's localist agenda, in the first instance it is for councils to keep their own schemes under review and it is clearly in the interest of local authorities to ensure that their schemes support positive incentives to work, to reduce demand for support. The Local Government Finance Act 2012 requires each billing authority to review their scheme each financial year, and to consider whether or not to revise or replace its scheme.¹⁷
139. The Local Government Finance Act 2012 also requires Government to make provision for a review of local council tax reduction schemes within three years of the Act coming into effect.

Localisation of the Social Fund

Committee recommendations:

140. The Committee feels that giving local authorities responsibility for Social Fund discretionary payments will result in uncertainty and inconsistency in how support is administered. This could lead to real hardship for claimants who have nowhere else to turn in crisis situations.
141. The Government should either ring-fence funding or ensure that provisions are in place to monitor the extent to which local authorities are able to meet demand for local welfare assistance.

Government response:

142. The Government is not giving local authorities responsibility for Social Fund discretionary payments. Parts of the discretionary scheme, Community Care Grants and Crisis Loans for living expenses are being abolished from April 2013 and funding is instead being provided for a new local provision.
143. To meet demand for this new provision the Government will be providing all of the current discretionary Social Fund funding of £178.2 million per year, which will be divided between local authorities in England and the devolved administrations in Scotland and Wales. This division will be based on previous spend for each area to ensure a fairer distribution of resources between them. There is also separate administration funding of £72.17 million provided for 2013-2015, which is based on current Department spend and is at the upper end of earlier estimates from local authorities. Separate funding for set-up costs is also being provided. Under a localised system, it is clearly the case that local authorities will develop different approaches that meet the needs of their local area.
144. The Government has been clear that this funding is designed to support people facing the greatest hardship. However, Parliament debated at length and rejected ring-fencing this funding during the passage of the Welfare Reform Act 2012. The Government believes ring-fencing in this area would constrain local authorities, as it prevents investing in existing services and pooling the money with funding from pre-existing services.

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145. The Government fully agrees that it is very important to have adequate controls in place to ensure that the funds are used in the way intended. To this end we have held a great number of workshops with all upper-tier local authorities to support them in designing and delivering their schemes and to consider in detail how transferred funds could be used to maximum effect.
146. Additionally, details of the funding has been accompanied by a settlement letter which provides clarity on the purpose of the funding, the underlying principles, and describes the outcome that must be achieved.
147. Furthermore, in order to underline its purpose the funding will be distributed to local authorities through a specific revenue grant rather than being included with the rest of their general expenditure in the main revenue support grant.
148. The Department for Work and Pensions is committed to continue this supporting for local authorities both before and after April 2013. We will be conducting a review in 2014 to obtain appropriate information from a representative cross-section of at least 50 local authorities.

Implementation Programme

Committee recommendations:

149. The Committee recommends that the Government provides further details to ensure that the transfer of data between the Department for Work and Pensions' IT systems and the ATLAS system used by local authorities is efficient and robust.
150. Although implementation will be phased over four years and the system can be developed and refined over time, the basic structure and essential elements of service delivery should be in place before the major roll-out of Universal Credit in October 2013.
151. The Department should begin monitoring the impact of Universal Credit as soon as the Pathfinder starts in April 2013, and should set out its plans for how it intends to evaluate any changes in the long term.

Government response:

152. The Universal Credit programme has been designed to build up incrementally to allow for testing, learning and improvement through each phase of delivery.
153. At each stage of programme implementation, the necessary systems and processes are in place for Universal Credit to be able to support the scale and variety of claimants and their circumstances. Implementing every aspect of Universal Credit and the systems which support it simultaneously would create an unnecessary risk to the safe delivery of the programme.

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154. The first people to claim Universal Credit during the pathfinder period and from October 2013 onwards will be newly unemployed. The essential elements of service delivery to support those claimants will be in place by October 2013. Thereafter, additional elements will be added as they become necessary, to support additional groups of claimants and to support the process for migrating claimants from the old benefits to Universal Credit. Alongside that, there will be a continuous process of refining and improving systems and services in the light of the experience gained from live running.
155. ATLAS uses batch processing to collect details of relevant changes during each day and then sends the data to each local authority in a single 'batch' overnight. This is a tried and tested way of transferring data making use of pre-existing infrastructure components each of which has previously been thoroughly tested individually.
156. The ATLAS project combined existing components to maximise the use of existing infrastructure thus avoiding the need for additional capital investment. The end-to-end process was tested before go-live to ensure that the parts joined together effectively and delivered the requisite data to local authorities.
157. The Department works closely with the local authorities and their IT suppliers to help develop the solution to the detailed business requirements (for the local authority systems) and provides the local authorities and their IT suppliers with test files. All of the above takes place before any enhancement is released in to the live environment, so by the time the system is used under Universal Credit it should be fully functioning and we should be fully familiar with any issues.
158. We have previously described our approach - in line with the Committee's recommendation to monitor and evaluate Universal Credit from day one.

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