

SSAC response to the Universal Credit White Paper

1.1 As we highlighted in our response to ‘21st Century Welfare’ SSAC welcomes the government’s commitment to the creation of a simplified and more coherent and consistent benefits system.¹ We support the Universal Credit objectives of streamlining the system and making work pay and appreciate the work carried out so far by the Department to ensure that the objectives will be delivered effectively. We also recognise the importance of getting the detail right. We are therefore very keen to support the government in the detailed development of Universal Credit, to help ensure effective implementation and delivery. We set out below what, for us, are key issues for consideration emerging from the detailed design of the policy.

1.2 We would be very happy to engage in detailed discussion with DWP officials to offer expert advice on the key issues detailed below. The SSAC Chair has already had the opportunity to engage with ministers, officials and other key stakeholders through the Senior Stakeholder Advisory Panel meetings and we would very much like to build on the opportunity afforded by this forum. We also welcome the presentations and engagement with officials to date and were particularly pleased to hear them say that they are open to help and support from stakeholders.

1.3 We appreciate that the White Paper proposed some very high level options and that until we have sight of the Bill, which will have its First Reading very shortly, we shall not be in a position to consider the detailed structure of Universal Credit. It is unusual to have a number of key policy questions relating to a new scheme unresolved at this point in the process – and it is the detail that is vital to how Universal Credit will work in practice and to whether it will meet its overall objectives. It is therefore essential to the successful implementation and delivery of the policy that time available for consultation and debate is used to think very carefully about the detail of the policy and the different customer groups that will be impacted.

Complexity

1.4 The Committee has already highlighted with officials that they view a number of aspects of the Universal Credit system as potentially complex. One of the key issues adding to complexity will be the need to maintain different systems for Working and Pension Age claimants, especially with regard to housing support. The localisation of elements of the Social Fund will also add complexity, as will the complexity of individual households. The White Paper highlights the problem of complexity as a barrier to work and aims to overcome the complexities of the current system. It is therefore essential that the detailed development of Universal Credit sets out to minimise complexity within the new system.

¹ <http://www.ssac.org.uk/pdf/response-by-ssac.pdf>

Key issues for further consideration emerging from the detailed design of Universal Credit

Making work pay

2.1 As we have already raised in our response to '21st Century Welfare' we are concerned that some of the emergency budget measures, such as steepening the taper on tax credits and the reduction in childcare support, will erode work incentives prior to the implementation of Universal Credit. We recommended that the impact of fiscal tightening on key elements of the welfare system should be subject to a full, independent audit and we would be very interested to know whether this suggestion has been considered by the Department. We recommend that the audit should examine how spending cuts have a wider impact on incentives to work and claimants' ability to access work.

2.2 Whilst we appreciate that more generous earnings disregards for certain groups may help some part-time and low-paid workers, we are concerned that they will not address the problems faced by second earners, unless Universal Credit implements separate disregards for individuals. We would be interested to know whether the Department has modelled the potential impact of second earners moving out of work. Although second earners are not mentioned specifically in the initial Equality Impact Assessment, we do welcome the Department's commitment to explore the evidence available to consider gender impacts in some depth.² We will review this element of the revised EIA in detail when it is published.

2.3 It is also important to highlight that more generous disregards will not be implemented across all client groups. For example, disregards for single people will be less generous under Universal Credit. Work incentives for certain people on low incomes will therefore be worsened under Universal Credit, contrary to the impression that the overall thrust of Universal Credit will be to increase incentives to work.

2.4 We also have concerns about the possible impact on the financial benefits of progressing in work for working families, as highlighted in the Family Action report on Marginal Deduction Rates.³ The report highlighted that, under Universal Credit, Marginal Deduction Rates (MDRs) will *increase* (from 70% to 76%) for working households who are currently paying Income Tax, National Insurance and claiming tax credits, but not receiving housing benefit or council tax benefit. The final details around support for childcare and Council Tax have not yet been agreed and these may impact further on in-work progression, potentially leading to a deterioration in work incentives for large numbers of working families. We would be interested in the Department's response to the Family Action report.

² <http://www.dwp.gov.uk/docs/universal-credit-equality-impact-assessment.pdf> - section 3, p.6

³ <http://www.family-action.org.uk/uploads/documents/MDRs%20under%20UC.pdf>

2.5 The Family Action report also highlights a very significant difference between the taper rate proposed in the original (CSJ) Dynamic Benefits model and that proposed under Universal Credit. We appreciate the effect of the current economic and fiscal climate on this difference. However, the CSJ taper would meet the Universal Credit objectives more effectively by reducing disincentives to work whilst avoiding increasing the MDRs. We would be interested to discuss the Department's longer-term predictions about the taper rate for Universal Credit.

2.6 We would appreciate more detail about the plans for passported benefits, as these can have a key impact on work incentives. We welcome the proposal to gradually withdraw entitlements to prevent all passported benefits being withdrawn at the same time. However, without more detail, e.g. on the thresholds which will be applied, it is difficult to comment further on the proposals. We would be particularly interested to know how this element will be taken forward by the devolved administrations. We would also like more information about the future of transition payments, such as the In-Work Credit for lone parents and Job Grant. The White Paper reports that these may not be needed under Universal Credit but does not provide any further detail.

Complex households

2.7 In our response to '21st Century Welfare' we highlighted the fact that complex households had not yet been addressed. The White Paper does not yet provide detail about how such households will be dealt with, for example, how Universal Credit will deal with individuals who are both employed and self-employed, or a couple where one is employed and the other self-employed, or a household comprising persons employed by a number of different employers. We would welcome further discussion about how households with more than one type of earned income will be included in the Universal Credit system. Complexity in family composition also needs to be taken into account, for example complicated arrangements with regard to parental responsibilities, such as step families.

Payment system

2.8 We are concerned about two separate aspects of the payment system: income distribution within households; and monthly budgeting. With regard to income distribution we recommend that an element of the Universal Credit payment is made direct to the main carer, in the same way that Child Tax Credit and the childcare element of Working Tax Credit are paid (mainly) to the main carer.⁴ We are concerned that budgeting by the main carer (usually the woman) will be compromised if only one Universal Credit payment is made to the main claimant (usually the man) - less money going to the main carer could lead to more hidden poverty within families. Whilst assessment and benefit payment at the household level assumes that money coming into

⁴ Currently, 86% of in-work couples receiving Child Tax Credit have a female payee - HMRC Child and Working Tax Credit Statistics: April 2010 <http://www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-apr2010.xls>, page 36, table 7.1

the household is shared equally between men and women in couples, research on intra-household allocation of resources suggests that this is not a safe assumption.⁵ Dividing the payment would also provide additional insurance in the event of a dispute about a particular element of the payment, ensuring that income from benefit is not dependent on only one source.

2.9 We note that the potential division of payment is briefly addressed in Annex 3 of the White Paper (“We assume that ordinarily with a joint claim, only one of the partners would receive the Universal Credit payment. However we will consider the scope to arrange payments to parents in couples, so that support for children goes to the mother or main carer, as now in Tax Credits”). We would be very interested to hear the Department’s current position on this issue.

2.10 We are also concerned about the potential for claimants to get into debt as a result of the move to monthly benefit payments. Research shows a tendency for low-income households to budget on a weekly basis.⁶ Claimants also indicate a preference for shorter payment periods; shorter periods are perceived as offering greater financial security by enabling claimants to more easily keep expenditure within the limitations of a low income.⁷ Evidence suggests that people on low incomes develop systems of bill-payment and shopping based on short payment periods, to ensure that they do not run out of money. Any significant change, such as a move to monthly payments, would almost certainly require them to adjust the way they manage their money and could put them at significant risk of arrears. We are concerned that this impact on budgeting could lead to an increase in arrears and debt and a greater reliance on expensive credit options.

2.11 It is not clear in the White Paper whether the intention is to move to 4-weekly or monthly payments. Although this may seem a minor distinction (13 annual payments vs. 12 annual payments), it can have a disproportionate impact on those budgeting on a low income. Our recommendation would be for fortnightly payments. However, if the Department is considering only 4-weekly or monthly payments then we would be in favour of a 4-weekly cycle.

2.12 Whilst we welcome the introduction of budgeting support highlighted in the White Paper we would like more information about what will be provided, including: who will provide the support, how it will be funded, at which point in a claim, how effective it is likely to be and how the support will be monitored.

2.13 We have some concerns about bedding down of the payment system. We therefore recommend that Departmental error, certainly in the first three years of operation, should not be passed on to the customer.

⁵ <http://www.oxfam.org.uk/resources/policy/gender/downloads/gender-perspective-welfare-reform.pdf>

⁶ Kempson, E. and Whyley, C. (2001) Payment of Pensions and Benefits. DWP Research Report 146

⁷ <http://research.dwp.gov.uk/asd/asd5/rrep103.pdf>

PAYE and HMRC issues

2.14 We agree that it is important to link with the PAYE system in order to deal with changes of circumstances more effectively. However, we are concerned about the stability of the current PAYE system, particularly given that the proposed changes to Child Benefit will further upset the system, including changes to the coding. We have very real concerns about the ability of the system to manage a number of simultaneous changes effectively. DWP officials have reported that they are working closely with HMRC and we will continue to monitor these issues during the detailed development of the implementation plans.

2.15 We understand that HMRC has decided to proceed with the phased introduction of Real Time Information (RTI), beginning in Spring 2012. Although all employers are expected to be part of the new system by October 2013, small employers will only be mandated from August 2013. We believe this brings risks to the Universal Credit timetable and would welcome more detailed discussions with officials to determine how this risk will be managed by DWP.

2.16 HMRC has recently launched a second stage of consultation to seek views on the detailed design of RTI and the framework for implementation. We have major concerns as to whether employers, particularly micro employers, will be able to cope with RTI in the timescales envisaged. Employer accuracy and co-operation are critical. Although business may welcome the long-term benefits of RTI, the transition period may be difficult due to the amount of change for employers in a short timeframe. The self-employed will need a sensible reporting system and we find it difficult to see how it will be possible to move away from an annual reporting cycle; a pragmatic approach will be required. We will follow the consultation closely, particularly with regard to timetable issues.

2.17 We are also keen for the Department to monitor any potential negative impacts on working families, as a result of the expansion of means-testing in moving to a monthly assessment and payment system.

Employer engagement

2.18 Employer engagement will be essential to the effective implementation of Universal Credit but is not mentioned in the White Paper. We would welcome information on a range of issues, including: how employer compliance with Universal Credit and RTI will be ensured; what links there will be with existing employer enforcement mechanisms in BIS; when employer engagement (including with small employers) will start; whether the Department has carried out a segmentation exercise considering which employers employ people in low paid jobs (it is likely that there will be fewer larger employers than is true for the general population).

2.19 Previous experience (e.g. with Tax Credits) highlights the difficulties that have arisen with employer engagement. It is therefore essential that the

benefits of effective engagement are clear for employers and that communication from both DWP and HMRC is comprehensive.

Childcare

2.20 We understand that the Department plans to integrate childcare payments into the Universal Credit system. We recommend that childcare payments should remain outside of the Universal Credit system, but given the current time constraints we appreciate that this is unlikely to be possible. We believe that the very tight development timetables have led to a missed opportunity in designing a new childcare payment system.

2.21 We support many of the principles underlining the development of the childcare payment system outlined by the Department, including simplicity, transparency and ensuring that work pays. Having considered the options proposed by the Department to date, we would support a system of additions which was responsive to fluctuations in childcare costs. We also appreciate some of the advantages in a system of fixed period awards – allowing for adjustments for increasing costs.

IT and Online access

2.22 In our response to ‘21st Century Welfare’ we raised concerns about the underestimation of the scale of the IT challenge by the Department. We still believe that the IT changes required for Universal Credit could be more substantial than have been outlined so far and we would welcome more detail about what will be required, how it will be achieved and how risks will be managed. We recommend that the Department publishes an action plan and timetable for the IT developments needed in order to introduce Universal Credit.

2.23 We support the Department’s aim of maximising the use of online channels and appreciate the advantages that this can bring for the majority of customers. However, we do have concerns about those who might be excluded by technology. The Office for National Statistics’ recent family spending survey shows that while 71 per cent of households have a home computer with internet access, this figure falls to only 30 per cent for the lowest income decile group (the poorest 10 per cent of families).⁸ The White Paper promises to provide “focused help for those unable to use online channels”. We would welcome discussion about how such customers will be identified, the support that will be made available - not just at the point of claim but throughout the lifetime of the claim, for example reporting of changes of circumstances online or checking information about a claim online –who might deliver support and how it will be funded.⁹

⁸ http://www.statistics.gov.uk/downloads/theme_social/family-spending-2009/familyspending2010.pdf

⁹ The White Paper indicates that the Department is considering how best to work with partners to meet this need

Sanctions

2.24 As we have already highlighted with officials, Universal Credit offers a prime opportunity for the Department to simplify the sanctions regime. Evidence highlights that sanctions are often poorly understood and have disproportionate impacts on certain vulnerable groups, for example, people with learning disabilities.¹⁰

2.25 We are therefore very interested in the 'claimant commitment' proposed in the White Paper and would like the opportunity to discuss this further with officials. We are interested in a range of details, including: how it will be presented and communicated to customers; whether it will be personalised or based on the broad conditionality groups; whether it will highlight rights as well as responsibilities (and if not, will links be made with the DWP Customer Charter?); how Jobcentre Plus will ensure that claimants understand the commitment; the timetable for implementing the commitment; and whether it will be revisited regularly or simply presented at the start of a claim.

2.26 We would also welcome discussion about the rationale for a sanction remaining in place for a fixed period *after* re-compliance. This seems to make no sense whatsoever from a behavioural perspective – lifting of the sanction upon compliance would seem to us to give a much clearer and more immediate signal about the impact and value of re-compliance, and of sanctions themselves.

2.27 With increasing conditionality for certain groups we are concerned that more people who fall into hardship groups may be sanctioned, for example lone parents and certain customers with long-term medical conditions. This creates wider problems if they fail to apply for hardship payments. On a related note, we do not support the proposal to transfer hardship payments to loans. We strongly believe that this will unfairly penalise the families of benefit claimants.

2.28 As we highlighted in our response to '21st Century Welfare' we are concerned that the proposal to apply conditionality to those in work seems to be unrealistic in the current economic climate. With high underemployment - currently over 1 million part-time workers in the UK want to work more hours - sanctioning clients who cannot increase their hours seems to be both unworkable and unfair.¹¹ This also raises concerns about sanctioning customers in these circumstances. We cannot see how in-work sanctions can be policed and are concerned that customers working short hours may be penalised as a result of labour market conditions, rather than as a result of their response to the conditionality regime applicable to them.

2.29 The White Paper states that safeguards for vulnerable people will be maintained and mental health and substance abuse problems will be taken into consideration. We would be very keen to have more information about

¹⁰ <http://www.jrf.org.uk/sites/files/jrf/conditional-benefit-systems-full.pdf>;
<http://research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep313.pdf>

¹¹ http://www.statistics.gov.uk/elmr/07_10/downloads/ELMR_Jul10_Tam.pdf

how this will work in practice. We would also like more information about how the Department are improving their methods of ensuring lone parents know about and are able to comply with their responsibilities.

2.30 It is not clear from the White Paper how the interaction between individual level conditionality and sanctions will work at the household level. We understand that each adult in a household will have conditionality applied to them as an individual - they will be placed in their own conditionality group with appropriate requirements. Does this mean that a household Universal Credit payment would face a double sanction if both claimants failed to comply with their conditionality regime? What if both failed to comply at the same time? Would the sanctions be concurrent or consecutive?

2.31 We would welcome more information about the timetable for change in the sanctions regime, as this is not made clear in the White Paper. The White Paper states that the change will be introduced in existing benefits but gives no indication of when this might change and whether this will apply to all benefits at the same time or whether it will be on a phased basis.

2.32 We would also like more detail on how the sanctions regime will work under the Universal Credit regime – e.g. how will housing costs be covered if the whole Universal Credit payment is stopped? What about cases of direct payment to landlords? Will payments that are currently protected (e.g. for children) be protected under Universal Credit?

Pension Age customers

2.33 The White Paper proposes changes to Pension Credit, in order to ameliorate some of the impacts of Universal Credit on Pension Age customers (specifically with regard to housing and dependent children). We agree with the Department that these proposals do not go far enough to support all Pension Age customers. However, full integration with Universal Credit may not prove to be possible.

Mortgage support

2.34 The White Paper reports that the Department is “considering whether changes are needed to the current approach to calculating help with mortgage costs to ensure it is consistent with Universal Credit principles” and “exploring the full range of options” for the longer term. We believe that it is essential to preserve support for Mortgage Interest within Universal Credit, in order to maintain stability in housing for claimants. Withdrawing support would lead to an increase in repossessions, which would seriously impair the ability of claimants to take up opportunities to work.

Social Fund

2.35 We are concerned about the localisation of Community Care Grants (CCGs) and would welcome more information about whether these will be ring-fenced. If not, then we have substantial concerns that the amount

payable will be reduced as it becomes 'swallowed up' in the general Local Authority funding pot. It is also essential that an Independent review/grievance process is built into the system.

Permitted work

2.36 We would welcome information about how the permitted work rules will fit into the Universal Credit system, as this is not discussed in the White Paper. We recommend that the purpose of the permitted work rule is retained within Universal Credit and enhanced further, in order to support more customers into work. We believe that this would support one of the aims of Universal Credit, which is to ensure that all amounts of work will be more financially rewarding than inactivity and to remove the current barriers to small amounts of work.

Carers

2.37 We strongly agree with the assertion in the White Paper that Carers provide an invaluable service to some of the most vulnerable people in our communities. We are therefore pleased that the Government wants to make sure they get the support they need. However, we are concerned that details are not yet developed at this late stage in the development of the Bill.

Contributory benefits

2.38 We strongly support the continuation of contributory benefits on the grounds that they create a work incentive and increase independence and responsibility. They also potentially reduce the stigma for claimants and reinforce the idea of benefits as an entitlement (for those who have paid contributions and/or received credits). We are therefore pleased that the government intends to maintain the existing contributory benefits alongside Universal Credit. However, it is not entirely clear from the White Paper how the payment of contributory benefits will fit with a household-level payment of Universal Credit. We would welcome further details on the integration of contributory benefits. We would also appreciate assurances about any longer-term plans for contributory benefits and consider it an appropriate time to consider the taxability of benefits in general.

Implementation

2.39 The White Paper does not provide information about how the Department intends to roll out Universal Credit. We recommend that the Department considers a Pathfinder approach, to test the payment system in particular.

Transitional protection

2.40 We welcome the commitment in the White Paper to ensure that there will be no cash losers at the point of change. However, we would also like to see more detail about the arrangements for transitional protection before we can

consider the full implications. For example, how would a very small change in income – such as an inflation-based pay rise – impact on transitional protection? How long will transitional protection be applied for? We would also welcome some discussion of alternative approaches, such as buying out losers rather than implementing transitional protection, as recommended by the Committee in our response to ‘21st Century Welfare’.

Communication

2.41 Effective engagement with customers will be essential for the implementation of and transition to Universal Credit. Signposting needs to be very clear – customers need to know where to go and how to go through the processes. DWP has a wealth of experience in communicating change, although some recent examples have been less effective, for example communication around the introduction of ESA. DWP research indicates that there was a low level of awareness amongst customers prior to their ESA claim.¹² However, we are pleased that the Department is applying lessons learnt to ESA migration. We will welcome the opportunity to review a clear and comprehensive communication strategy for Universal Credit in due course.

2.42 Staff training is also important and we would like some reassurances that there will be enough skilled and experienced Jobcentre Plus staff to deliver a personalised service, especially given the ending of temporary contracts.

Conclusion

3.1 We welcome the opportunity to comment on the Universal Credit proposals and we reiterate our support for the development of ‘...*welfare that works*’. This paper has highlighted a number of key issues for the design of Universal Credit and we make a number of specific recommendations for tackling some of the more complex aspects of the new scheme. We are pleased to be able to support the Department in the detailed development of the programme and look forward to offering further advice in discussions with officials.

¹² <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep707.pdf>