



www.dwp.gov.uk

Paul Gray
SSAC Chair

Neil Couling CBE
Director General, Universal Credit
Programme
6th Floor, Caxton House
Tothill Street
London
SW1A 9NA

neil.couling@dwp.gsi.gov.uk

17 December 2015

Response to the study by the Social Security Advisory Committee:

"Universal Credit: priorities for action" (Occasional Paper No. 15)

Dev Paul

As Lord Freud's letter of 22 July to you explained, we welcome the thoughtful, detailed and well researched approach that the Committee have taken to this study of the Universal Credit landscape. We agree that SSAC are focusing on the right things. You have highlighted a number of key areas that we are happy to discuss further, particularly as the post Budget and post Spending Review landscape position is completely clarified. We have provided further information around recent research on financial capability and the links between that and a number of the housing and personal vulnerability issues that you raise in the paper.

I hope that this fuller response, attached at Annex A, to the final conclusions and recommendations at section 9 of your report is useful in demonstrating our commitment to our continuing work with SSAC on Universal Credit, addressing the specific issues you raise, and can help inform future discussions.

As part of that, in response to your call for a specific timetable and detailed plan to address the specific issues you have focussed on, I would stress that we already have a fully developed programme-based approach – including plans and timetables. And our approach is explicitly designed to ensure the service is continuously improved based on user feedback. To support this, new IT code and process improvements are deployed on a much more flexible and frequent basis than in a traditional waterfall project.

This allows us to expand Universal Credit in a gradual, safe and secure way, by using a 'test and learn' approach and 'agile' development and by applying a rigorous approach to assurance processes.

By adopting an agile approach to development of the digital service and the programme as a whole, we are able to deliver Universal Credit in a way that allows greater flexibility and responsiveness than a traditional project. We use that flexibility to ensure the safest and most secure rollout and to limit the risks associated with 'big bang' launches. For example, by making small changes incrementally and re-evaluating and adjusting before releasing an improved service to a larger group of selected users, we limit the risk of encountering large-scale problems.

The Test and Learn approach is designed to drive continuous improvement of the service ensuring it is built on experience and evidence. By developing a firm evidence base underpinning the programme, we are able to tackle problems that may arise and to plan the next implementation stages with a firm understanding of the issues at hand. This is of particular utility in our efforts to help our claimants with the most complex and diverse needs, with trials such as Universal Support examining how we can best support such claimants.

Furthermore the Universal Credit Programme is subject to a comprehensive regime of internal and external assurance processes. Universal Credit has adopted DWP's three lines of defence assurance model and established a dedicated Assurance function to proactively manage internal approval activities and co-ordinate independent assurance to support key decision points and outcomes. A number of recent, external, independent assurance activities have been undertaken, resulting in high confidence in the programme both internally and with key delivery partners.

Perhaps I can cite an example. I know the Committee are concerned about how we move existing tax credit cases onto UC. This process is scheduled to begin in the middle of 2018. In line with our test and learn approach we will be conducting a pilot of our processes before we start the process nationally to explore the best way of transferring people and their reactions to the process. I want to involve Local Authorities, HMRC, Housing Associations and claimant representatives and I very much hope SSAC will want to be involved (without prejudice to any position you might want to take on our plans). We are currently designing that and deciding when will be the best time to run a test, in the light of other activity. But this isn't something we need to finalise today. We need to optimise the scheduling of this activity with other equally important issues, within the context of running a challenging major Programme.

Yours Sincerely



Neil Couling
Director General, Universal Credit Programme

1. Passported benefits

Recommendation: concerted joint action involving other Government Departments, local authorities and service providers in co-ordinating a plan of action on the passporting of benefits

Since the publication of the SSAC paper in 2012, DWP has been working closely with other Departments to consider how they might continue to deliver their passported benefits to those getting Universal Credit as it is rolled out further.

To ensure they continue to be targeted at those who need them most, we have agreed to the introduction of system of earnings thresholds to enable the continued delivery of these benefits under Universal Credit. The decision to use earnings thresholds was announced at the same time DWP made its UC & Families announcement in November 2014.

We are aware of the importance of these benefits and the vital support they provide to people on low incomes, and believe that using earnings thresholds to determine eligibility provides a sound basis for delivering them. We are now working with Departments to determine the right earnings thresholds which will be introduced as claimant numbers expand through 2015/16.

2. Self-employment

Recommendation: the development of the work of the specialist working group to provide advice and direction as to how the self-employed can best be served under Universal Credit

In late 2014 we established a UC self-employment Stakeholder Advisory Group to:

- Advise the Department on the safe and effective delivery of the Universal Credit policy and legislation in relation to self-employed claimants, specifically the monthly reporting arrangements, the Minimum Income Floor and the Surplus Earnings provision.
- Review the Department's communications products, tools and information for self-employed people claiming Universal Credit and how they support the self-employed to make and manage their claim to UC.
- Consider the support Government can offer to self-employed claimants and those wishing to become self-employed to enable them to grow and develop their business to increase their earning potential.

The group has met 5 times to help us progress this and the Universal Credit Programme has recently launched an External Relationships Strategy which sets out the overarching local and national engagement priorities for the remainder of 2015-16 and beyond. The strategy focuses on the department's partnership community, its external delivery partners and employer engagement that support the operational delivery of Universal Credit. We are aiming to build on our existing partnership arrangements to ensure that they have the right capability and support available to be able to act positively on the opportunities that Universal Credit offers. This strategy includes actions to develop engagement plans to prepare our stakeholders, including the self-employed group, for the next stage of Universal

Credit taking into account the progressive roll-out to all claimant groups from May 2016.

We recognise the importance of ensuring that our Work Coaches are specifically trained to offer dedicated support to self-employed claimants. We are currently testing models of support in the digital service, and we will learn from this and consider how best to ensure support is available for these more diverse claimants.

3. In-work Issues - Conditionality

Recommendation: a more transparent approach on in-work conditionality that accommodates individual circumstances through an insightful and sympathetic understanding of them

We acknowledge SSAC's request to publish guidance and have published supporting documents for Work Coaches to support individuals, who are in work, to increase their earnings.

Through the delivery of Universal Credit we have the opportunity to support and engage people who are on low incomes or who live in low-income households to help them progress in work and increase their earnings to become more independent and self-sufficient. Universal Credit emphasises that people are better off in work and encourages personal responsibility and financial independence. Our focus is primarily on reducing dependency on welfare; reducing poverty and in-work poverty and contributing to the strong growth of the UK economy.

We currently operate a 'light touch' regime for those in work claiming Universal Credit in the digital service or those moving into work in the live service. Light touch is an interim regime for those who are in work but earning less than we could reasonably expect; either based on their household or individual earnings. These individuals are legally expected to take action to secure more or better paid work, however this requirement has been temporarily switched off outside of any of the in-work trials mentioned below.

The UC In-Work Pilot Scheme and Amendment Regulations 2015 were secured in order to test the impacts of a conditionality regime for in work claimants and the optimal design for the labour market offer to them. Since April we have been running a randomised control trial (RCT), the first under these new regulations, to test applying conditionality to low-earning, working Universal Credit claimants to encourage an increase to their earnings.

The RCT aims to test the impact of key elements of a core in-work service, principally:

- o Work Coach support to set relevant goals, address barriers and define actions.

- Focussed conversations of varied frequency (initially fortnightly and bi-monthly) to monitor and drive the progress claimants are making.
- Mandatory requirements (conversations, actions) and potential use of sanctions where a claimant fails, without good reason, to undertake reasonable activity to earn more.

Work Coaches will support those claimants on low earnings who could reasonably be expected to do more, having focussed conversations, helping to drive their motivations, attitudes and abilities in pursuit of seeking opportunities for increasing their earnings capability. Conversations and the claimant commitment are tailored to the individual circumstances of each claimant. For some more established low earners Coaches will be helping to drive a step change in their behaviours

The Work Coach will tailor their on-going support based on the individual's circumstances, making the most of flexible interventions in order to encourage individuals by:

- Developing the individual's skills and relevant experience in current or new sectors, which will offer realistic prospects for securing sustainable work and increased earnings;
- Promoting the benefits of becoming financially independent;
- Helping to increase the individual's confidence and belief in their ability to explore different opportunities.

There has been guidance issued specifically for the RCT; helping prepare our Work Coaches to deliver this trial is a crucial aspect of the work we are doing now. We want to ensure that Work Coaches have a thorough understanding of the things they can do to support and encourage people to earn more and that they have access to information and tools that can help. We have strong safeguards to protect people who should not be expected to increase their earnings. Certain groups, such as the long term disabled or recent victims of domestic violence, will be excluded from the trial. Individuals won't be penalised if they do not manage to increase their earnings where they have been doing what they reasonably can to try to do this.

In addition to the guidance around how best to support the participants of the trial, there are clear rules around which claimants will be selected for the trial and safeguards for those for whom it would not be appropriate to participate. The guidance also covers how to set reasonable requirements which take into account individual's work commitments as well as their capability and other personal circumstances.

Recruitment to the RCT is planned to finish in Autumn 2016 and the trial will run on into 2017. We will then consider the findings and what that means for the development of our policy in the area. I wouldn't expect to see full proposals for implementation before April 2018.

4. In-work issues - Sanctions

Recommendation: an urgent review of the operation of the sanctions regime ensuring that existing rules are thoroughly evaluated and greater testing with incentives rather than penalties is explored

Using the test and learn approach, and based on feedback from operations colleagues, the Department has been monitoring the end-to-end process for UC sanctions, and updating learning and development products, processes and guidance as part of the continuous improvement process. We have also amended the structure of sanction-related letters to help improve claimant understanding of the purpose and application of sanctions. These updated products will be delivered for all staff (including Decision Makers) in all existing sites operating UC through the latter part of 2015 and introduced in further UC sites as we continue with expansion.

We continue to focus on improving communications to claimants. Among the changes we have made is promoting to claimants how they can end sanctions, either by complying with what is expected of them to bring open-ended periods of reduction to a close, or how longer periods of sanction can be ended through sustained work so that claimants are encouraged to engage with the offer on support swiftly. These messages will be included in the Claimant Commitment and revised letters to claimants. DWP has taken decisive steps to embed the recommendations Matthew Oakley outlined in his review of sanctions in 2014. Since the review we have conducted analysis of the content of letters with claimants and staff; making content clearer and more motivating through the help of behavioural insight experts and copywriters; simplifying the range and timing of letters to increase engagement.

We are also making sure Work Coaches set appropriate work-related requirements for those individuals who have either complex lifestyles or mental health or cognitive conditions, taking into account their capacity to undertake and complete activities. Where additional support is needed, Work Coaches will ensure claimants fully understand what is expected of them before any referral for sanction is made, and will explain to them in person the impact of any sanction and what help is available to them. Decision Makers will continue to have a key role in providing an independent view of the suitability of requirements and recommending a review of the Claimant Commitment where they consider a requirement was not appropriate.

On October 21, prompted by the yellow card approach recommended by the Work and Pensions Select Committee, the Secretary of State announced a trial of a warning system for claimants before a sanction is imposed, which allows for a 14-

day period to provide evidence of good reason before the decision to sanction is made. This system will also be trialled within UC from early next year.

In any event we will continue to monitor the process through our test and learn approach to ensure that it continues to function fairly and effectively.

5. Second earners and work incentives

Recommendation: a review of the treatment of second earnings and the effect upon work incentives

The Government wants to move from a low wage, high tax, high welfare society to a high wage, lower tax and lower welfare society. That means providing support for those in work through wages and the tax system, rather than relying on incentives to top up low pay. In that way, the improved ability of the main earner to support his/her family increases the options available, for families to strike their preferred work/life balance.

The most important goal is to ensure there is some work in the household. The household income test means UC is neutral in terms of how much each member of a couple is earning, and the Summer Budget changes to work allowances mean lone parents and couples with children are now treated equally. Wider Government changes to the income tax threshold and National Living Wage also support incentives for second earners.

We also expect many claimants to respond to the changes to work allowances announced in the Summer Budget by actively seeking more work, and we will support them with this. For example, someone could recoup the loss from the Work Allowance changes by working 3-4 additional hours a week at the national living wage to which they are entitled.

Other incentives for people to move into work and increase their hours in work are strong in Universal Credit, and better on average than in the legacy benefit and tax credits system. Universal Credit will continue to improve incentives to enter work:

- o leaving the single taper rate unchanged will continue to ensure that Universal Credit reduces gradually as household earnings increase;
- o claimants will no longer need to move between the tax credit and benefits systems simply because their hours and earnings change.

6. Evaluation

Recommendation: a genuinely responsive and transparent approach to the results of evaluation as they begin to filter through

The UC evaluation programme is structured around a responsive test and learn approach, whereby emerging evidence is fed back into the service to ensure that it informs service delivery 'in real time'. A number of evaluation reports have now been published as part of the DWP Research Report series. The most recent report of a survey on claimants' attitudes to Universal Credit, their behaviour and labour market outcomes, was published in February 2015. Findings from this research have fed into claimant communications and have been used to help inform the on-going UC evaluation programme.

<https://www.gov.uk/government/publications/universal-credit-claimant-survey-nov-to-dec-2014-interim-findings>

7. Tax Credits

Recommendation: careful consideration of the challenges involved in the migration of tax credits into Universal Credit

The UC Programme Migration team has been working closely with HMRC and other partners and stakeholders in recent months. HMRC have helped us to identify the major risks and challenges arising from moving Tax Credit (TC) claimants onto UC.

We have held a further round of planning discussions with HMRC and other partners and will be taking a recommended migration approach to Universal Credit Programme Board. This will include a more detailed proposal on the migration of TC claimants and details of how we will be developing a joint approach to resolve and mitigate the major risks and challenges. Our approach will be continually updated and refreshed over the coming months and as I mentioned earlier we want to involve others in optimising the design of the process here.

It's important to note that anyone we move onto Universal Credit from Tax Credits as part of the managed migration process will be protected at the time of migration. They will not lose out in cash terms as a result of being moved.

8. Budgeting

Recommendation: a continued commitment to address the risks to which some claimants will be subject as a result of –

- the length of time before the first full payment of Universal Credit is normally made;
- monthly payments of benefit;
- payment of rental housing costs to claimants in the first instance;
- having alternative options for childcare support; and
- the development of USdl

Waiting days

The waiting day policy is focussed on new UC claimants coming from relatively higher-income employment who enter the All Work Related Requirement Group and who are likely to have earnings to fall back on. Safeguards are in place to exempt vulnerable groups from serving waiting days. For claimants in financial need who cannot manage until they receive their first payment of UC, advances of benefit are available which can be applied for during the waiting days period. A range of support services is available if claimants need help with budgeting and managing their money. The policy will be kept under review and evaluated to ensure it is working as intended.

Personal Budgeting Support

Personal Budgeting Support (PBS) is discussed between the claimant and the work coach as part of the initial Work Search Interview and all claimants are given a Money Advice Service leaflet. The Work Coach assesses the claimant's capabilities and determines if there is a PBS / Alternative Payment Arrangements (APA) need e.g. a managed payment of UC housing costs to their landlord. Where PBS is appropriate, the Work Coach telephones the relevant local authority and makes an appointment for money advice. Where an APA is appropriate the Work Coach makes the recommendation to the UC Service Centre to implement the APA. The Work Coach is encouraged to maintain an on-going conversation with the claimant about their financial capability.

Alternative Payment Arrangements

APAs can be considered at any point during the UC claim, either at the outset or during a claim; they are subject to review and delivered in conjunction with PBS to help claimants successfully make the transition to monthly budgeting. All APA cases are dealt with urgently, the UC Service Centre have improved the process of delivering APAs and have introduced dedicated teams to manage these cases, with better designed and simpler notifications and forms and a dedicated telephone number and external e-mail address for landlords to use.

Monthly Payment

Under the legacy benefit system households may receive different payments of benefits and tax credits. They may receive different amounts at different frequencies.

Universal Credit is paid monthly in arrears and the amount does not vary to reflect the number of days in the month. Monthly payment of benefit helps households to budget on a monthly income which eases the transition into paid work. Monthly payments also make it easier for households to take advantage of cheaper tariffs for essential costs such as utility bills by making it easier for claimants to establish monthly direct debits.

Universal Credit provides financial support in order for claimants to meet essential living costs. Therefore each monthly payment needs to correctly reflect the claimant's actual personal and financial circumstances in that month. For claimants who have earnings or other income, Universal Credit is adjusted monthly to reflect what other money the claimant received that month. This ensures that financial support is provided when it is needed.

Payment of rental housing costs to claimants in the first instance

The legacy benefit system pre-determines a claimant's ability to manage their financial affairs based on whether they live in social housing or private-rented housing. Universal Credit starts with the presumption that support for housing costs should be paid directly to the claimant, who is then responsible for paying their own rent.

It is worth noting that most working age claimants in the Private Rented Sector are already used to receiving their Housing Benefit payments directly and are responsible for paying their rent to their landlord. A significant number of tenants in the Social Rented Sector are also responsible for paying their rent or part of their rent to their landlord.

The government is committed to supporting working-age recipients of Housing Benefit make the transition to a single monthly direct payment of benefit as part of Universal Credit.

For some claimants an alternative payment arrangement may be required and these can include a managed payment of rent to the landlord. The claimant can request an alternative payment arrangement at any point during their Universal Credit claim. The need may also be identified at the outset by the Jobcentre Plus work coach, or at a later date during the claim if for example the claimant is struggling with the single monthly payments.

Landlords can also request an alternative payment arrangement when a rent arrears 'trigger' of two months of arrears has been reached. They can also request one if the claimant has continually underpaid their rent over a period of time, and have accrued arrears of one months' rent. Payments can then be switched to a managed payment of rent to the landlord. This helps to avoid the build-up of excess levels of rent arrears and to reduce the risks to landlords.

Direct Payment Demonstration Project

Universal Credit promotes personal responsibility and expects the majority of tenants to manage their finances, including their own housing costs, whether they are in or out of work. This is important in minimising the difference between paid employment and being on benefits, and effectively removes a key barrier to moving

back into work. For many tenants in the social sector, this will be a significant change in responsibility and DWP recognises the vital role that landlords can play in preparing for the change and their initial concerns about maintaining a regular and dependable income.

To address these concerns, DWP set up the Direct Payment Demonstration Project, the final evaluation of which was published on 18 December 2014 covering the full 18-month period. The projects were carried out in six areas to identify key lessons from the direct payment of Housing Benefit to social sector tenants. They also aimed to demonstrate the level of personal budgeting support claimants might need, including access to financial products, money advice and alternative payment arrangements.

The outstanding conclusion was that the predicted dramatic increase in rent arrears did not occur. Overall, tenants paid 95.5 per cent of all rent owed compared to 99.1 per cent for those not on direct payment – a difference of 3.6 percentage points. Furthermore, the impact of direct payment lessened significantly over time: half of the total direct payment arrears were accrued in the first month (or 4 week period) following migration. In the 4th to 6th payment periods, the difference in payment rates had fallen to 2.8 percentage points; falling again in the 7th to 9th payment periods to 1.3 percentage points. By the 18th payment, tenants' average payment rate had risen to 99 per cent.

Reflecting concerns about the initial increase in arrears, and experience from the live service, the design of Universal Credit has been enhanced to:

- improve the process of delivering managed payments to landlords, identifying a single point of contact within DWP to address any issues that landlords may have;
- introduce dedicated teams to manage housing and Alternative Payment Arrangement cases, with better designed and simpler notifications and forms, and a dedicated external email address for social landlords to escalate cases where they are considering formal pre-eviction action;
- introduce seconded local authority housing benefit experts in the Universal Credit Service Centre, supported by dedicated network of Housing single point of contacts, in each local authority, funded via the Delivery Partnership Agreement;
- introduce a new deduction rate for rent arrears, which will help claimants clear their debts more quickly so they can focus on moving into employment. These deductions are made as a last resort, protecting those vulnerable claimants who have arrears but have not budgeted for their debts. Deductions will be a minimum of 10% (and up to 20%) of a claimant's standard allowance, with the actual rate determined by a tenant's particular circumstances and any other deductions which may be in place. Alternatively, landlords can choose to make their own arrangements with tenants for repayment of rent arrears, deciding and agreeing the terms of

recovery directly with them increased take up of personal budgeting support by working closely with Work Coaches.

Childcare Costs

Parents with young children use many different forms of childcare and it is important that the childcare market can be flexible in its response to parental choice. The Government has therefore developed a package of schemes that provide all families with access to childcare support:

- 15 hours of free early education for all three- and four-year-olds and for around the 40% most disadvantaged two-year-olds, administered by local authorities;
- the childcare element of working tax credit which currently allows parents to claim up to 70% of their childcare costs, this will increase to 85% under Universal Credit from April 2016;
- the Tax-Free Childcare Scheme, which will save up to 1.8 million working families up to £2,000 per child on their annual childcare bill.

This package of childcare support makes childcare affordable so that parents can make the work choices that they want to and need to, and raise their household income.

In addition the new extended free childcare entitlement for working parents of three- and four-year-olds will build on this by providing eligible parents with an additional 15 hours of free childcare per week, over 38 weeks or the equivalent number of hours divided across more weeks per year. It will help families by reducing the cost of childcare and supporting parents to work.

DWP continues to work closely with HMRC and DfE to ensure the schemes complement each other effectively. In many cases parents may be able to benefit from more than one scheme – for example, they may receive free early education hours and support for hours outside of this through Universal Credit. Where claimants need to choose, for example if they would be eligible for both Universal Credit and Tax Free Childcare, the Government is committed to ensuring that parents will have the guidance they need in order to make an informed decision on which scheme will provide the best support for them.

The development of Universal Support

Any localisation initiative will naturally move some of the levers of control away from central government and towards the local structures to which they are directed. Universal Support (US) is no different, however, our aim is to put in place resilient systems to ensure that the quality of support provided is consistently high across the board and our current trialling exercises are helping us learn the lessons to do that.

The expansion of the live service across the country and the US trials are testing the effectiveness of the current model. In the digital service a Proof Of Concept exercise to test how best we can incentivise LAs to provide better value for money (for providing a US service) will provide helpful intelligence on the user needs of this wider customer group and how best we can seek to confirm and agree a standard level of service nationwide.

Lessons learned from all of these initiatives will assist DWP in its design of an effective and consistent US service as Universal Credit moves towards full roll-out.

