SOCIAL SECURITY
ADVISORY COMMITTEE

Neil Couling
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Department for Work and Pensions
Caxton House
Tothill Street
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Dear Neil,

Universal Credit: surplus earnings

In January 2018, the Committee took proposed changes on surplus earnings and self-employed losses for Universal Credit claimants on formal reference.[1] The report concluded that the Committee had serious doubts about the potential for the surplus earnings policy to operate effectively. Recognising that the Department proposed to operate with a high de minimis level in the first year, the Committee strongly recommended rigorous processes be put in place to provide for effective test and learn arrangements. The Committee highlighted the importance of capturing learning around the formidable challenges in communicating the policy to claimants. We also felt that only if test and learn provided compelling evidence that the policy could be successfully operated at scale would it be prudent to continue with it, in particular with any reduction to the de minimis limit.

The Government's response to the report noted that the introduction of a higher de minimis allowed the department to implement this change in a safe and secure way with minimal impact to the majority of claimants. The department planned to monitor volumes and claimant impact as an automated process was developed. In addition, the response highlighted the discretion available to extend the date at which the de minimis would revert back to £300 form the higher £2,500.

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[1] As part of The Universal Credit (Miscellaneous Amendments, Savings and Transitional Provision) Regulations (SI 2018/65)
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/675908/uc-regs-si-2018-65-surplus-earnings-ssac-report.pdf

This discretion was used to keep the de minimis at £2,500 from April 2019 and again from April 2020 in order to safeguard the efficient administration of UC.[2] The Committee's understanding is that the higher £2,500 de minimis limit reduces significantly the number of UC recipients potentially affected by the policy, which gives the Department time to develop at IT solution to allow the policy to work for larger numbers of claimants. We understand that other IT solutions have been of higher priority for the Department. At the Committee's December 2017 meeting, it was estimated that over a twelve-month period 11,000 fluctuations would trigger the surplus earnings rules with a de minimis of £2,500. In announcing the further extension of the £2,500 de minimis from April 2020 (rather than £300), it was estimated that this would stop around 500,000 claimants having the policy applied to them over a twelve-month period.

The COVID-19 pandemic has resulted in an unprecedented number of claims for UC in a short period of time. Many of these claimants are likely to be new to the benefits system. Many will be self-employed. The Committee understand that the Self-Employment Income Support Grant (SEISS) will be paid to those who successfully claim as a lump sum in June 2020 and that it will be taken into account as income in the assessment period received. For some self-employed UC claimants, the grant is likely to trigger the surplus earnings rules and it may well be triggered in other cases as a result of the current situation, as the period of economic turmoil is likely to be associated with greater instability in assessed incomes. The result is that the policy is likely to be triggered by a far larger number of claimants than originally envisaged.

The Committee has identified two issues arising from this:

- How the policy and rules will be communicated to claimants. In our original report we commented on the complexity of the policy, especially as some individuals would be better off by continuing to submit new claims to reduce their surplus (even if they are not actually entitled to receive any UC) while others would be better off waiting some months before making a new claim. This will be a greater challenge as many of those involved will be new to UC, while the substantial increase in the numbers affected makes it more important that the communication is done effectively.

- How the policy is currently operated (whether manually or automated) and whether that mechanism can cope with substantially increased volumes. This includes how the surplus earnings will be calculated and displayed on award notices.

[2] Written Ministerial Statement (5 March 2020) announcing the extension: https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-03-05/HCWS147/

Therefore we would be grateful if you could provide the Committee with details of how the Department plan to deal with the surplus earnings policy on a potentially much larger scale, particularly in relation to IT and communications.

The Committee acknowledges the far-reaching policy and operational measures that have been taken by the Government to help support households during the extraordinary circumstances in which we find ourselves. We also recognise the challenge which the Department has faced in recent weeks in dealing with the significant increase in UC claims and pay tribute to everyone who has been working tirelessly to ensure UC continues to provide essential financial support to those who need it. However, it is important that the surplus earnings rules do not inadvertently undo the positive policy measures that have been introduced recently. We feel that the surplus earnings policy raises further challenges to be addressed and we would welcome further information on how those risks will be managed.

We would be very happy to discuss further if that would be helpful.

[By email]

Victoria Todd
Chair, SSAC Universal Credit sub-group