

**SOCIAL SECURITY**  
**ADVISORY COMMITTEE**

**Universal Credit: priorities for action**

**A study by the Social Security Advisory Committee**  
**Occasional Paper No. 15**

**July 2015**

## Social Security Advisory Committee

### About this report

This project was conducted as part of the Social Security Advisory Committee's (SSAC's) Independent Work Programme, under which the Committee investigates pertinent issues relating to the operation of the benefits system. It was finalised before the Chancellor's July Budget Statement, and does not therefore take account of potential further implications for Universal Credit from that announcement.

We would like to thank the individuals and organisations that provided their views on this issue, including at the SSAC stakeholder event in May 2015.

We are also grateful for the assistance of our secretariat who prepared the paper for us, and to officials from the Department for Work and Pensions (DWP) who provided factual information. As ever, we are also grateful to our extensive stakeholder community for their active engagement with this project.

However, the views expressed and recommendations reached in the paper are solely those of the Committee.

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### 1 Introduction

The Department for Work and Pensions (DWP) is in the middle of introducing its new flagship benefit – Universal Credit. The purpose is to establish a simpler, all-inclusive, means-tested, working age benefit available for those both in and out of work. One of its key features is the link to HM Revenue and Customs' (HMRC's) PAYE system which will enable those with fluctuating earnings to receive benefit which is automatically adjusted through the receipt of 'real-time information'. The Government expects Universal Credit to provide a genuine incentive for claimants to take on work (or more work or better paid work) and, for that and other reasons, it has been welcomed in many quarters.

So far most Universal Credit cases come under what is called the 'live service'. This is the approach which has involved DWP staff in helping claimants through the process of claiming the benefit and then reporting changes of circumstances once an award has been made. In parallel, an automated system of claiming on-line, reporting changes on-line and communicating on-line is being developed and tested. The aim is that this 'digital service' will catch up and then overtake the live service.

At the start of rolling-out Universal Credit, the Government made it clear that it would begin with the simplest of cases, and that more complicated cases would be tackled later. Initially pilot offices have handled claims for Universal Credit in respect of single non-homeowners and administered resulting awards of benefit. From that base experience, skills and confidence are being built to proceed to the next layers of complexity. It was always recognised that the most complicated cases and issues would be left until nearer the end of the roll-out programme.

This approach has enabled a 'test-and-learn' approach so that gaps and weaknesses could be identified and then rectified. This is a positive innovation. It distinguishes the introduction of Universal Credit from the introduction of any other previous major benefit change in UK history. At the same time however the long-term roll-out means that the Department has set out on a programme without its final details being fully worked out. Delays and the consequent need to reset the roll-out programme also indicate that the task of bringing in Universal Credit may be more challenging than initially hoped.

The Department is now approaching what might therefore be called the 'business end' of the project. Things are likely to become much more testing for the Department as cases move up the scale of complexity, for example, unstable family arrangements and instances of irregular self-employed earnings. The importance of effective methods of communication both to staff

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and claimants as the rollout proceeds will therefore be more critical than ever. Communications is a regular focus for the Committee's work<sup>1</sup>.

At various stages in the process of developing and introducing Universal Credit, the Committee has had an important part to play. Two particular milestones were our report into passported benefits<sup>2</sup> and then, subsequently, our scrutiny of the draft sets of regulations which would underpin Universal Credit<sup>3</sup>. In both cases the initiative for seeking SSAC's input came from the Ministerial team at DWP, and we were grateful for the opportunity to make a constructive contribution. In those and other more recent reports<sup>4</sup> we have sought to highlight some of the areas within Universal Credit that seem to us to be in need of further attention.

We therefore see it as timely, as the new Government establishes its priorities, to seek to identify the main issues that still require to be addressed, and to offer ideas for the Government's further consideration. This report is not intended to be a comprehensive account of all the more detailed issues arising.

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<sup>1</sup> [SSAC Occasional Paper 11: Communications in the Benefits System \(Sept 2013\)](#)

<sup>2</sup> [Universal Credit: the impact on passported benefits: SSAC report \(Cm 8332\) \(March 2012\)](#)

<sup>3</sup> [Universal Credit and related regulations: SSAC report \(Dec 2012\)](#)

<sup>4</sup> [Occasional Paper 9: Universal Credit and Conditionality \(Aug 2012\)](#)

[Occasional Paper 10: Implementation of Universal Credit and the support needs of claimants \(May 2013\)](#)

[Occasional Paper 12: The cumulative impact of welfare reform: a commentary \(July 2014\)](#)

[Occasional Paper 13: Social security provision and the self-employed \(Sept 2014\)](#)

[Occasional Paper 14: Localisation and social security: a review \(May 2015\)](#)

[The Housing Benefit and Universal Credit \(Size Criteria\) \(Miscellaneous Amendments\)](#)

[Regulations 2013 \(SI 2013 No 2828\) \(Nov 2013\)](#)

[The Universal Credit \(Surpluses and Self-employed losses\) \(Digital Service\) Amendment](#)

[Regulations 2015 \(SI 2015, No. 345\) \(Feb 2015\)](#)

[The Universal Credit \(Waiting Days\) \(Amendment\) Regulations 2015 \(SI 2015 No 1362\) \(June 2015\)](#)

## 2 Passporting benefits

One of our concerns continues to be passported benefits. By this we mean those secondary benefits (often benefits in kind) which a person is able to access by virtue of entitlement to a primary benefit. So, for example, entitlement to a traditional means-tested benefit has commonly been the threshold for granting a parent free school meals for their children. Historically central Government Departments, local authorities, utilities and other bodies have used the receipt of income support or, currently, income-based JSA/ESA or tax and pension credits as the test for allowing the secondary benefit. The advantage of such an approach is that, for the authority responsible for the secondary benefit, it is simple to administer and guarantees a highly defensible degree of fairness or at least targeting on the basis of need. On the down-side it creates a real cliff-edge of potential loss that could act as a brake on a claimant's efforts to increase their income, although there is only largely anecdotal evidence for that happening in practice.<sup>5</sup>

Because Universal Credit is available to claimants whilst in work as well as out of work, the providers of passported benefits are faced with difficult decisions. In May 2011 the Committee was asked by the Government to conduct an independent review into passported benefits and produce a report in the light of the impending introduction of Universal Credit. Following a public consultation, the Committee published its report<sup>6</sup> which identified three key factors which needed to be balanced: the need for simplicity, maintaining the Universal Credit objective of making work pay and keeping costs neutral.

The Committee set out a number of principles and suggested that the introduction of Universal Credit provided an opportunity to simplify the passporting system and create a more integrated approach which avoided the sharp cliff-edges of the past. However, the option, for example, of converting some benefits such as free school meals and National Health Service (NHS) costs into a cash amount and including it within Universal Credit was considered but not put forward as something which deserved further deliberation. It was felt that the desire to ensure that the passported benefit translated into actual receipt of the specific benefit in kind outweighed any administrative gain and any limiting of potential cliff-edges. This was a point made by the majority of the respondents to our consultation.

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<sup>5</sup> In the Committee's report into passported benefits we commented that there was no robust evidence to support the view that passported benefits could act as a work disincentive. People tended to make decisions on work on the basis of many factors and without necessarily entering into a rational monetary analysis of the situation. Nonetheless that does not mean that the effect of falling over the cliff-edge through the loss of passported benefits does not reduce the financial gains of employment in reality.

<sup>6</sup> Universal Credit: the impact on passported benefits (March 2012) Cm 8332.

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A key point emerging from our report was the need for all those involved in providing passported benefits to work together to produce a coherent, across-the-board policy. Clearly it was envisaged that DWP would be in the lead, but that the chance for creating a genuinely integrated plan involving all the key players was seen by the Committee as an opportunity not to be missed. It would enable all those involved to understand the spectrum of passported benefits and act to provide a common definition of income as well as the sharing of information (assuming claimant consent and data protection compliance). Our view is that this would afford the most promising opportunity for an integrated and efficient solution that did not undermine the work-incentive principle, and would be far better than a whole series of bi-lateral contracts and negotiations. It would also serve to avoid duplication of administration. A joined-up approach would also assist with ensuring that information leaflets and other methods of communication would contain simple, accurate and coherent messages.

As the Committee recommended in May 2013:

*The Committee recommends that DWP, other government departments, devolved administrations and utility companies continue to work together to find innovative ways to reform and simplify the existing system of passporting and avoid creating unnecessary risks for claimants when such benefits are withdrawn. The Committee would welcome regular progress reports and be willing to continue to provide input on design.*

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Implementation of Universal Credit and the support needs of  
claimants<sup>7</sup>**

While the Government provided a commitment to do so in its response to our earlier report, there is little sign that such a co-ordinated approach has been achieved, and our fear is that each of the providers may be determining their own solution individually. If that is right, we would urge the Department to press for a directive that would give DWP some authority in initiating, and carrying through, a collaborative and joined-up policy on passported benefits. Until now the relatively low numbers of people claiming Universal Credit has meant that the need to find an answer to the difficulties posed by passported benefits has not been paramount. With the pace of Universal Credit roll-out now accelerating, that is no longer the case, and the matter is now urgent.

The Committee has just published a report on localisation<sup>8</sup> where we make a similar point about the need for DWP to take the initiative in leading a

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<sup>7</sup> SSAC report: [Implementation of Universal Credit and the support needs of claimants](#) (2013)

collaborative venture and to achieve the much talked-about goal of cross-Government working. The Government's aims for Universal Credit and for other aspects of its social security reforms can only be achieved if this goal is realised.

*We call for continued DWP leadership, working by invitation and in concert with representatives from across Whitehall, devolved administrations, local authorities and third sector organisations to ensure that necessary and inclusive standards of coverage and adequacy are maintained.*

**Social Security Advisory Committee  
Localisation and Social Security: a review**

Meanwhile other stakeholders have made recommendations on passported benefits which should be taken into account in creating the kind of overall harmonised scheme which we have been advocating. In a report for the Joseph Rowntree Foundation<sup>9</sup> (JRF), Policy in Practice looked at the issue of free school meals as being of particular significance. The report noted that if provision for passported benefits was fixed at the same level, the ultimate integration of working tax credit within Universal Credit would result in a weakened work incentive. In order to prevent a cliff-edge of loss of entitlement, the report proposed a tempered reduction in the work allowance.

An earlier report from the Centre for Economic and Social Inclusion<sup>10</sup> also commented on the localisation of passported benefits and drew attention to the danger of increasing complexity contrary to the policy intention of making Universal Credit simple. The report stated:

*“It appears increasingly that the broader vision for UC has been eroded as incremental decisions through the design process have (arguably inevitably) reintroduced complexity. Localised rebate schemes for council tax and other departmental arrangements for passported benefits are likely to see the single taper rate lost and introduce a further administrative layer for service users. As a plethora of different local arrangements are developed for the replacement schemes for Council Tax Benefit, and the community care grants and emergency crisis loans elements of the Social Fund, local JCP staff, intermediaries and service users will need to assimilate how national and local arrangements*

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<sup>8</sup> SSAC report: [Localisation and Social Security: A Review](#) (2015)

<sup>9</sup> Ghelani, D and Stidle, L, [Universal Credit: Towards an effective poverty reduction strategy](#) (2014)

<sup>10</sup> Rarr, A and Finn, D, Centre for Economic and Social Inclusion [Implementing Universal Credit: Will the reforms improve the service for users?](#) (2012)

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*interact with one another and calculate how this affects the complexity of the system and incentives to work.”*

In summary we would strongly encourage DWP to take a determined stance on insisting that providers of passported benefits work together to create a coordinated system of secondary welfare provision. Whatever model emerges should underpin the Government’s ambition that Universal Credit should be simple and uphold work incentives.

### 3 In-work issues

The material in this section 3 focuses on issues affecting those in conventional employment. Many of the same or similar issues also impact, often in a more complex way, on those in self-employment and these are discussed in section 4 below.

#### 3.1 Conditionality

One of the biggest Universal Credit challenges facing the Department concerns the issue of conditionality for in-work claimants. The task is to find a reasonable and effective balance between two extremes. At one end the Department could allow claimants (who are capable of taking more self-supporting work) to receive Universal Credit indefinitely without any inquiry as to whether the claimant could progress in work and move towards ultimate independence. At the other extreme, the Department could attempt to mirror the conditionality regime which is currently applicable to out-of-work claimants (the JSA model) for the in-work claimants. The Committee believes a middle way needs to be found. Those who could work more hours or earn more need to be identified and encouraged in that direction, but those who may be working full-time or to the full extent of their capacity, having regard to such factors as health, disability and caring commitments, should not be pressured into going beyond their reasonable limits.

Inevitably in-work conditionality is also a highly sensitive area. However well-framed the introductions, and however personable the approach, questions directed at an individual claimant and designed to ascertain whether longer hours could be worked or a higher rate of remuneration secured, are bound to cause anxiety and resentment in some quarters. Existing employers of such individuals have a stake in understanding what is being suggested to their employees. A good working relationship between DWP staff and both claimants and employers is not only desirable on a human level but provides the best context for DWP to provide an effective service. An over-zealous drive to get claimants into full-time or better paid sustainable work without regard for, or full recognition of, the demands their particular everyday life would not only jeopardise the relationship but damage the potential for giving people the support they need.

Furthermore, it is important that the Department works closely with employers of in-work claimants, in order to avoid situations where a claimant is being steered in different directions by the Department and an employer.

Once Universal Credit has been fully rolled out, the Department estimates, using the static analysis that underpins the fiscal forecast, that the number of workless households will be similar to those where at least one person will be

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engaged in remunerative work. This does not however take into account the dynamic effects of Universal Credit; the Department expects there to be more people in work as a result of improved financial incentives, greater simplicity and the effects of extended conditionality. The issue of in-work conditionality is therefore a major consideration for the Department, likely to impact at least as many claimants than those impacted by out-of-work conditionality.

In their 2014 report<sup>11</sup> into the implementation of Universal Credit the Chartered Institute for Personnel and Development (CIPD) have made some helpful suggestions on the issue of in-work conditionality.

*“Given the limited opportunities for many low-paid staff to increase their working hours or skills in order to boost their earning potential, the CIPD believes that ‘in-work conditionality’ should be primarily based on the provision of career advice and guidance and skills development support – at least until labour market conditions change and/or evaluation evidence and pilots demonstrate the benefits of a stricter regime.”*

**Chartered Institute for Personnel and Development**

CIPD has also advised against setting mandatory targets on job-search activities for in-work Universal Credit claimants and counselled against adopting a tick-box approach. At the same time they suggest that in-work conditionality ought to be limited to requirements such as quarterly reviews with a dedicated adviser. Their recommendations with regard to employers are worthy of note, suggesting, amongst other things, that opportunities for training both internal and external should be set out for the benefit of employees, along with the routes to progression, opportunities for doing additional hours and the circumstances in which permission for taking a second job would be permitted.

Alongside our own report on conditionality<sup>12</sup> we would commend the CIPD report for the Department’s consideration as it formulates its approach to in-work conditionality.

### 3.2 Administration

The Department has estimated that by the time Universal Credit is fully rolled out it will need around 26,000 members of staff who will be designated as work coaches. This is still a very new type of role in the Department which

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<sup>11</sup> CIPD [Making work pay: Implementing Universal Credit](#) (2014)

<sup>12</sup> SSAC report: [Universal Credit and Conditionality \(2012\)](#)

will require new skills. In the past, claimant advisers have been expected to answer benefit-related queries, help claimants complete forms and give general advice from local knowledge of the labour market. With the focus of Universal Credit on offering a more personalised approach with close attention being given to the individual's particular circumstances, the task of the work coach is set to be far more demanding. Work coaches will be required to have more inter-personal and counselling skills, enabling them to have insights into conditions and situations which may not be apparent at a superficial level, especially where there may be actual or latent mental health issues of which the claimant themselves may not be fully aware. These new skills will be needed in dealing with in-work as well as out-of-work claimants.

It will need a considerable amount of training and experience before a member of staff can be expected to discern the boundary between what a claimant is currently doing by way of remunerative work and what they can reasonably be expected to do in the light of all their individual circumstances. It will also need a different and more flexible approach to the time allocated for interviews between work coaches and claimants. Some claimants will need a lot more time; others will need to be seen at times other than the traditional opening hours of jobcentres.

### 3.3 Guidance

The Department's detailed approach to in-work conditionality will only be finally set out when it produces its guidance for members of staff. DWP guidance is in two forms. One is the published guidance for decision makers (the Advice for Decision Making or ADM) and which is available to the public in written form on the GOV.UK website. The ADM provides a detailed analysis of the relevant legislation and sets out the way in which it should normally be interpreted and applied. It is the manual of reference for appeals officers and those who make decisions on entitlement. By contrast, the procedural guidance is limited to staff members linked in to DWP's own computer system and is not produced in hard copy. It covers a vast area and is framed in language and terms which may be difficult for the general public to follow. Because it is procedural guidance it tends to be more prescriptive than the ADM, setting out what a DWP employee should do in a given situation. Those within the Department who deal face to face with claimants, giving benefit advice or helping with job applications would tend to refer to the on-line procedural guidance. They would have little cause to refer to the ADM in their everyday work.

SSAC has recommended that that DWP publish guidance on in-work conditionality:

*It is important to recognise that the conditionality regime that currently applies to jobseekers may not be appropriate to in-work claimants, and conditions will need to be tailored to reflect the circumstances of specific individuals and families.*

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**Implementation of Universal Credit and the support needs of claimants**

We then went on to recommend that the Department should publish clear guidance on this issue ahead of October 2013. In its absence we repeat that request. We appreciate that the procedural guidance may not necessarily be appropriate for public consumption but we are of the strong view that a detailed statement should be produced, for the public's benefit, setting out the Department's intended approach towards in-work conditionality and how it is to be applied in practice in the range of cases that present themselves. Having such a detailed statement available to claimants, their advisers and the wider public would be extremely helpful in advance of the ADM being published.

### 3.4 Sanctions

The issue of sanctions was examined in our formal report on the *Universal Credit Regulations and related legislation* in 2012<sup>13</sup>. Successive administrations have strengthened the regime of penalising compliance failures with withdrawal of, or reductions in, benefit payments. SSAC, amongst others, has raised concerns about the increased use of sanctions, not because we believe that they are necessarily ineffective, but because we do not know for certain that they are effective, at least in terms of getting people into good quality jobs. We believe that the sanctions regime needs to be tested.

The Department is committed to evaluating their effectiveness and we think further changes in the system should be deferred until a firm evidence base to underpin the policy has been established. As a part of the test and learn process we would support experimenting with a more incentives based approach to motivating people and encouraging behaviour. Additionally the Department may wish to explore the option of applying non-financial sanctions which send an important message to the claimant but without directly impacting necessarily upon dependent members of the family.

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<sup>13</sup> SSAC report: [Universal Credit and related regulations \(2012\)](#)

More generally, SSAC has recommended that conditionality and sanctions should be discussed at the point at which a claim for Universal Credit is made so that claimants understand fully what is expected of them at the outset. The possible outcome for a claimant who fails to comply with those requirements, along with the requirements themselves, should form an essential element of the Claimant Commitment. We have previously made clear our view that the conditions in the Claimant Commitment must be reasonable, clear, unambiguous, achievable, demonstrable and tailored to each claimant's circumstances and abilities. In our report on *Universal Credit and Conditionality*<sup>14</sup> we highlighted a number of lessons drawn from various studies. Those lessons, which are worth repeating because of their continuing relevance, call upon the Department to:

- *recognise the importance of being sensitive to the personal circumstances of the most disadvantaged and vulnerable claimants, recognising that conditions must be personally tailored;*
- *take account of the fact that the ability of claimants with chaotic lifestyles to understand the sanctions regime and comply with it may be compromised by their circumstances;*
- *encourage early identification of claimants who are especially vulnerable, such as those with mental health problems or a learning disability, and most at risk of sanctions and enable advisers to ensure that appropriate support is made available to them at the earliest opportunity: this could be reflected in the Claimant Commitment; and*
- *allow discretion in applying a sanction as a vital component in an effective sanctions regime which seeks to change behaviour.*

There are suggestions that the Department's default position may have been to apply a sanction sooner rather than later whenever a failure in compliance has been identified. The onus would then shift to the claimant to show that the sanction should not be applied or should be mitigated in some way, for example, by demonstrating good cause. But there have been many voices raised to say that this is inappropriate and that sanctions ought to be a last resort.

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<sup>14</sup> SSAC report: [Universal Credit and Conditionality \(2012\)](#)

*We reiterate our view that conditionality is a necessary part of the benefits system and that sanctioning, if used appropriately, can be a useful tool for encouraging engagement with employment support. Sanctions should be used primarily for this purpose and as a last resort. Strict conditionality regimes should be balanced by meaningful and in-depth advice and support from JCP for those who need it.*<sup>15</sup>

**House of Commons  
Work and Pensions Select Committee**

*CAS is not automatically opposed to sanctions. However our position remains that sanctions must only be used as a last resort for those who have consistently and deliberately refused to engage with jobseeking requirements without good reason. If sanctions are to be used, then we believe they should be applied appropriately and consistently and with discretion.*<sup>16</sup>

**Citizens Advice Scotland**

### 3.5 Second earners and work incentives

Universal Credit is predicated upon providing work incentives so that nobody is better off on benefit. That principle is less evident when it comes to second earners where there is little monetary encouragement for the second earner in a couple to take on additional hours or seek a higher level of remuneration. In fact, couples motivated by purely financial considerations will want to ensure that the primary earner does more work and the second earner less. This suggests that the issue of how to treat the earnings of second earners (many of whom are likely to be women), and whether it operates fairly, needs further attention from the Department.

To that end we would commend further consideration of the report of the Resolution Foundation which examines various options for amending the rules on work allowances and equalising incentives between members of couples.<sup>17</sup>

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<sup>15</sup> *The role of Jobcentre Plus in the reformed welfare system* (January 2014)

<sup>16</sup> Citizens Advice Scotland [Briefing on sanctions](#) (March 2014)

<sup>17</sup> [Making the Most of UC: Final report of the Resolution Foundation review of Universal Credit](#) (June 2015).

### 3.6 Evaluation

The Committee is pleased to note that the Department has embarked upon an ambitious programme of evaluating Universal Credit. As the number of claims being taken expands, so the figures on in-work claimants will start to become significant. This will enable the evaluation exercise to extend to various aspects of in-work conditionality to see what works best. In the not-too-distant future we expect DWP to be in a position to identify, from the available evidence, a number of approaches that hold out the most promise of offering effective outcomes for claimants. We are supportive of this approach and look forward to seeing policy shaped on the basis of the evidence the Department has been able to gather. We would encourage the Department to make this process transparent by opening up the data for external scrutiny at the earliest opportunity.

## 4 Self-employment

Issues affecting the self-employed have been a particular focus for the Committee's work from the time of our report on the initial draft Universal Credit regulations<sup>18</sup>. More recently in our report into the *Universal Credit (Surpluses and Self-Employed losses) (Digital Service) Amendment Regulations 2015*<sup>19</sup> we repeated our recommendation that DWP engage with self-employed organisations (including tax and accounting experts) to provide ways to help the self-employed. The relationship between the self-employed and the benefits system can be very complex, and therefore expert input is, in our view, essential. Just as dedicated work coaches trained specifically in the complexities of self-employment will be needed when the numbers of the self-employed in receipt of Universal Credit begin to expand, so we believe it is vital that dedicated self-employment experts are engaged at the policy making and delivery design end of the operation.

In that report<sup>20</sup> we recommended the setting up of a working group specialising on the interplay between Universal Credit and self-employment and we have been encouraged by the Department's initial positive response to that proposal.

*As we have highlighted before, we believe there would be considerable merit in seeking input from technical experts from outside of the Department. Such input would be invaluable in considering the inconsistencies and complexities our scrutiny has highlighted – and to identify others. They may also be able to help devise a workable and pragmatic solution which achieves the right balance between complexity and fairness – for the claimant, for the Department's staff and for the taxpayer.*

**Social Security Advisory Committee  
Universal Credit (Surpluses and Self-Employed losses)  
(Digital Service) Amendment Regulations 2015**

A group of self-employment specialists could help the Department in a number of ways. There is a need to consider whether the regulations on fluctuating incomes and expenses can and should be adjusted so that they are more effective in smoothing out the benefit assistance afforded to the self-employed. The group might also consider how the Universal Credit and the tax system could be better aligned. We also think that there is a pressing need for a forensic probe into the growing phenomenon of 'false self-

<sup>18</sup> SSAC report: [Universal Credit and related regulations \(Dec 2012\)](#)

<sup>19</sup> [The Universal Credit \(Surpluses and Self-employed losses\) \(Digital Service\) Amendment Regulations 2015 \(SI 2015, No. 345\) \(Feb 2015\)](#)

<sup>20</sup> Ibid

employment' for low earners so that the DWP and HMRC can work together in identifying it (with perhaps one department taking responsibility), working to common definitions and adopting an appropriate legislative response for those affected by it. Additionally any input they could offer in relation to proposed guidance and written communications for the self-employed would be invaluable.

The Committee recognises the importance the Government has placed on Universal Credit taking account of earnings on a monthly basis. However, in our report into the *Universal Credit (Surpluses and Self-Employed Losses) Regulations 2015*, we recommended the Department consider introducing averaging of earnings for those self-employed people whose earnings can be volatile. A similar recommendation has been made powerfully in the recent report by the Resolution Foundation.<sup>21</sup>

*Fundamentally, we believe there is a strong case for allowing the self-employed to report their income differently to employees, reflecting the fact that they are different with very different treatment in the tax system. In the same way that UC is built around the RTI feed for employees, it should be built around the tax system for the self-employed. Therefore, we recommend that the self-employed should report their income to the UC system on the same basis as they do in the tax system. This would mean making an average monthly award of UC based on their current annual income, using the previous year's annual income as an approximation. It will also mean that there is no need to introduce the recently announced 'surplus earnings rules' for the self-employed. These rules allow profits and losses to be carried forward and offset in future months but increase the extent to which the self-employed are worse off compared to employees.*

**Resolution Foundation**

Nonetheless given the Government's commitment to monthly reporting, it seems sensible to concentrate upon how best one person and micro-enterprises can be helped through the Universal Credit process. In our report *Universal Credit and the Support needs of claimants* we identified a number of risks associated with Universal Credit and highlighted self-employment as one such area.<sup>22</sup>

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<sup>21</sup> [Making the Most of UC: Final Report of the Resolution Foundation review of Universal Credit](#) (June 2015)

<sup>22</sup> SSAC report: [The implementation of Universal Credit and the support needs of claimants: a study by the Social Security Advisory Committee](#)

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*The monthly reporting requirements for those with income from self-employment, coupled with the Minimum Income Floor, creates a risk that self-employment will become a less manageable or appealing option.*

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In the light of this situation we strongly recommend that the Department do more to help those who need it through the monthly reporting system. If it would be helpful the Committee would be happy to work closely with the Department and the self-employed working group on specific ways this might be achieved.

## 5 Tax Credits

A major concern as the rollout process proceeds will be the difficult task of migrating in-work recipients of tax credits to Universal Credit. This will affect both those in conventional employment and in self-employment. As in some of the other respects discussed above, the complexities in relation to the self-employed may be particularly testing, both at the point of entry to, and exit from, entitlement. Again we would suggest that the expert group on self-employment might be able to offer some insights as to how these challenges could best be addressed.

But the scale of the conversion project for all in-work claimants is large and multi-dimensional. Problems in converting an annually based system into a monthly one will need to be confronted for several million current tax credit recipients. Decisions in this area will also need to address the risk of new or additional error and fraud issues entering the Universal Credit system during this process. Related to this is the handling of existing tax credit overpayments within Universal Credit. Government statistics<sup>23</sup> on error and fraud indicate that in 2013-14 there were estimated recoverable overpayments of tax credits made to 820,000 claimants which amounted to £1,260m. Practical solutions are needed on how those overpayments (plus the stock of others that accrued in previous years but remain outstanding) will be recovered from a replacement benefit which already operates a detailed system of making deductions from benefit and paying them direct to a third party. Although the issue of overpayments in tax credits affects those in normal employment, it is again more likely to be prevalent amongst the self-employed where there is less certainty in predicting future income and expenditure.

Translating policy decisions on these issues into delivery mechanisms that are comprehensible to claimants will be a formidable undertaking. Effective claimant communications will be critical. The Committee is well aware, through its non-statutory advisory role to HMRC, of past communication challenges in the tax credit system and stands ready to support both Departments as required in commenting on draft communication products as well as on detailed regulations to implement the tax credit migration.

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<sup>23</sup> Child and Working Tax Credit Error and Fraud Statistics 2013-14

## 6 Vulnerability

### 6.1 General

The concern of the Committee remains focused on claimants for whom Universal Credit may not always work in the most appropriate way. The term ‘vulnerable claimants’ has been used by some and is generally understood to include for example those struggling with mental health conditions, learning disability, substance misuse, literacy, language and communication problems and families which are characterised by a high level of instability in their composition and in their internal relationships. But vulnerability manifests in a number of different ways and, although some groups of claimants may encounter it more consistently or regularly, it is not a static concept. Indeed the Committee has pointed out in the past that all claimants may be vulnerable at one point or another.

The Department has declined to provide a definitive description of vulnerability, explaining that:

*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.*<sup>24</sup>

**Department for Work and Pensions  
February 2013**

While a precise definition may be impossible, that in no way diminishes the paramount importance in the rollout of Universal Credit of addressing the needs of those claimants who are vulnerable, either consistently over time or at particular points in their lives.

Since vulnerability covers a spectrum of human conditions and situations, and asserts its presence in a multitude of different ways, this makes the task of identifying vulnerability at the point Universal Credit is claimed all the more exacting, particularly in the digital context. We have previously emphasised the need for DWP staff and delivery partners to be trained on the complex and dynamic nature of risk and vulnerability, so that they can direct claimants to appropriate sources of help.

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<sup>24</sup> Government response to the third report of the House of Commons Work and Pensions Select Committee Session 2012-13 – Universal Credit implementation: meeting the needs of vulnerable claimants.

*The Committee recommends that the Department should design, oversee and monitor the implementation of an effective training programme for its own staff and delivery partners who are in contact with UC claimants to ensure that they have a sufficient understanding of, and capability to manage, the complex and dynamic nature of risk and vulnerability within UC.*

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This remains a priority especially as the live service makes way for the digital service. We have also expressed our view that, although Jobcentre Plus staff, programme providers and support agencies must share information about claimants' vulnerabilities, they need to do so in a way that preserves the principle of confidentiality. This is pre-eminently so where domestic abuse is a factor.

*Personal Advisors, programme providers and support agencies should agree ways of sharing information about specific risks and vulnerabilities, with the claimant's permission, and ensuring that data protection and confidentiality protocols are in place by October 2013. In doing so, the risk of fraud and exploitation must also be carefully considered.*

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## 6.2 Digital inclusion

The Department is seeking to deliver Universal Credit as a digital service, with an 'assisted digital' solution where appropriate. We understand that this provision may include terminals in local offices and sending officers with laptops to take claims from people in their own homes in certain cases. We welcome these moves which reflect some of the Committee's initial recommendations in 2012.

The Committee is concerned that there will be a significant minority of claimants who will continue to need assisted digital provision, and these claimants are likely to be drawn more from certain groups (possibly including some with on-going vulnerability) than from the overall population. The evidence is that disabled people are less likely to have used the internet than non-disabled people in every age group. This is even more pronounced in the older age group (10.9 per cent of disabled 45-54 year olds never having been online, compared with only 2.8 per cent of non-disabled adults in the same age group). Internet usage also continues to be lower in some rural areas.

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Evidence also indicates that women do not use the internet to the same extent as men.

We therefore strongly urge the Department to ensure the funding required to provide assisted digital support is maintained, both during the rollout of Universal credit and for the longer term.

### 6.3 Budgeting

The move to monthly payments in arrears will require a substantial change in a family's financial arrangements, especially for the significant number of claimants who are not paid monthly and may struggle to manage monthly payments, and in view of the fact that the Universal Credit payment of benefit includes additional elements which are not paid with current income-related benefits.

The Committee appreciates that the Department needs to balance the requirement to give responsibility to claimants in preparation for a return to work whilst protecting tax-payers' money. But we believe it is important to respect the commercial needs of landlords, particularly for as long as the stock of housing available to claimants on a rental basis is limited, at least in relation to demand. This risk requires careful evaluation and potential mitigation.

Any budgeting difficulties claimants encounter from payments at monthly intervals will be exacerbated by the Government's recent decision to press ahead with the introduction of a 7-day waiting period before entitlement to Universal Credit can begin. The Committee provided advice<sup>25</sup> to the Secretary of State that this measure should not proceed. We remain concerned that it will result in debt and hardship for a number of claimants at the start of their Universal Credit award, and may take them some time to get back on an even keel. We would urge the Department to seek to identify particular needs early and tailor the training of staff to that end. Claimants should also receive education, support and assistance in moving from weekly to monthly budgets, which should be monitored to ensure it is effective. Thought could also be given to including a mandatory section on risk, vulnerability and support needs within the Claimant Commitment.

### 6.4 Universal Support delivered locally (USdI)

The call for leadership, ownership and co-ordination in meeting the opportunities presented by localisation was made in our recently published

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<sup>25</sup> [The Universal Credit \(Waiting Days\) \(Amendment\) Regulations 2015 \(SI 2015 No 1362\) \(June 2015\)](#)

report *Localisation and Social Security: A Review*.<sup>26</sup> While recognising the progress made in the development of local partnerships under USdl in some areas, consistent effectiveness across the country in this challenging new form of service delivery is essential to a successful rollout of Universal Credit. It calls for a flexibility and degree of cooperation between the various parties that is not yet common in public service provision. We would therefore simply point to this as an area that will require sustained and very close focus.

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<sup>26</sup> SSAC report: [Localisation and social security: a review](#) (2015)

## 7 Childcare

Funding childcare remains an issue in a number of respects. On adequacy, the state's contribution towards childcare within Universal Credit amounts to 70 per cent (rising to 85 per cent in 2016<sup>27</sup>) of the reasonable costs of childcare in respect of two children. This will still lead to high effective marginal tax rates for UK workers and, for those working at or near the national minimum wage and perhaps unable to work full-time, provide little incentive to take on additional work.

The Government is also introducing a tax free childcare scheme which will provide valuable assistance for some working parents. Difficulties may arise for those who could conceivably come under either scheme and who need to choose between claiming Universal Credit and receiving childcare support through entitlement to Universal Credit, or opt for the tax-free childcare scheme. It will be essential that co-ordinated information and guidance is made available for claimants to enable them to make informed and sensible choices.

The Government has very recently stated its intention to double the number of free hours of childcare in England from 15 to 30 a week for working parents of children aged three to four. Although that announcement has been welcomed in many quarters it has however been tempered by the news that some providers are threatening to leave the scheme through under-funding. The Government intends to meet with interested parties to discuss the issue of funding, but the unresolved issue is that of the availability of suitable places.

We support the Government's intention to convene a meeting with relevant stakeholders to discuss issues around childcare funding and availability of places. The creation of a forum in which views and contributions can be expressed is an important step forward. We await the outcome and the Government's response with interest. In the meanwhile these issues, when taken together with our comments above in relation to second earners, do highlight a risk that a potential disincentive to work could emerge that would prejudice the headline attraction of Universal Credit that work always pays.

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<sup>27</sup> DWP [Universal Credit: you and your family](#) (p2) (June 2015)

## 8 Housing costs

The way in which housing costs in respect of rents are to be paid has been a constant source of anxiety for landlords, housing associations, claimants and claimant advisers. In its progress report of February 2015 into Universal Credit<sup>28</sup> the Public Accounts Committee (PAC) said:

*The Department needs to reflect on how it will tackle the potential problems of paying the housing benefit element of Universal Credit directly to claimants. Some landlords and claimants have struggled with rent arrears when housing costs have been incorporated into single payments made directly to claimants. The Direct Payment Demonstration Project evaluation found that tenants paid 95.5% of all rent owed, compared to 99.1% of those not on direct payment. The Department plans to mitigate the risk of increased arrears by drawing on the finding from the Project and its earlier experiences of introducing direct payments to claimants living in the private rented sector. The Department is also facing additional costs and complications because of proposals to allow different rules for residents in Scotland eligible for the housing-related elements of Universal Credit. The Department said that it would need to make difficult changes to its systems to accommodate this, but that it did not know who was going to fund this work.*

**Public Accounts Committee**

In its recommendation the PAC said:

*We refer this issue to the Communities and Local Government Committee and ask their successors in the new Parliament to review whether paying the housing benefit element of Universal Credit directly to claimants is working.*

**Public Accounts Committee**

We await the response to this recommendation. Meanwhile, we believe that DWP should engage with landlords and other stakeholders in a proactive way to work to secure a mutually acceptable solution both with regard to direct payment of housing costs as well as in providing essential information the claimant will need to pass on to DWP so as to improve decision-making over the issue of service charges.

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<sup>28</sup> Universal Credit: progress update. Forty-second Report of Session 2014-15 (HC 810)

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The Committee is grateful that the Department addressed the concerns raised by providers of care homes and refuges for victims of domestic violence when the Universal Credit Regulations were first made public in draft form. There was a genuine fear at that time that many homes and refuges would no longer be able to operate as the reimbursement they would receive would not cover their costs. Those fears have since been allayed but it is not entirely clear that the proposed solution is necessarily the best. Again we would recommend that the Department work with those concerned to forge a solution that meets the requirements of all the main stakeholders.

The under-occupancy rules have had something of a troublesome history to date and it is important that the new Government keep this issue under tight review and monitor how it is working in practice. It is conceivable that the rules will become more widely known over time and, to a certain extent, accepted. Nonetheless in cases of bereavement, temporary absences from the home by a member of the assessment unit or where it includes a disabled person (eg the claimant or a child) the rule can operate to the severe detriment of individuals and families. A check should be kept on this to see that unnecessary and avoidable damage does not result. In particular consideration should be given to exempting parents of children entitled to Disability Living Allowance (DLA) in any form from the under-occupancy charge and maybe providing an exceptions process for claimants with disabled children not eligible for DLA.<sup>29</sup>

Another housing-related area for attention is that of mortgage interest relief. It remains uncertain what the Government's intentions in this area are, but we believe that there is a continuing disparity in the way the benefit deals with tenants and owner-occupiers. Owner-occupiers who, for example, become ill or disabled, and need to turn to benefit, will need to face potentially life-changing decisions, as indeed many do now. We also understand that the 'zero earnings rule' may create a disincentive for claimants who own property to find work. The Committee would suggest that this rule be monitored and evaluated.

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<sup>29</sup> [The Housing Benefit and Universal Credit \(Size Criteria\) \(Miscellaneous Amendments\) Regulations 2013 \(SI 2013 No 2828\) \(Nov 2013\)](#) (recommendation 5).

## 9 Conclusion and Recommendations

In conclusion we would recommend that DWP publish a revised timetable which sets out these major outstanding concerns along with a detailed plan to address them. The passage of time has already pushed many of these issues from 'pending' to 'urgent' - indeed some have become extremely urgent.

The recent election of the Government should give added impetus to facing these challenges with renewed vigour. In particular we would highlight the need for:

- concerted joint action involving other Government Departments, local authorities and service providers in co-ordinating a plan of action on the passporting of benefits;
- 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;
- a more transparent approach on in-work conditionality that accommodates individual circumstances through an insightful and sympathetic understanding of them;
- 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;
- a review of the treatment of second earnings and the effect upon work incentives;
- a genuinely responsive and transparent approach to the results of evaluation as they begin to filter through;
- careful consideration of the challenges involved in the migration of tax credits into Universal Credit; and
- 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;

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- having alternative options for childcare support; and
- the development of USdl.

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