



Work and Pensions Committee

Oral evidence: Department for Work and Pensions Annual Report and Accounts, HC 507 28 October 2015

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Members present: Rt Hon Frank Field (Chair), Heidi Allen, Mhairi Black, Ms Karen Buck, John Glen, Richard Graham, Mrs Emma, Lewell Buck, Steve McCabe, Craig Mackinlay, Jeremy Quin, Craig Williams

Questions 1-99

Examination of Witnesses

Witnesses: **Rt Hon Iain Duncan Smith**, MP, Secretary of State for Work and Pensions, **Robert Devereux**, Permanent Secretary, Department for Work and Pensions, and **Mike Driver**, Director General, Finance, Department for Work and Pensions, gave evidence.

Q1 Chair: Secretary of State, Iain, welcome. Might I ask you to begin by introducing yourself and your team?

Mr Duncan Smith: I am obviously the Secretary of State and I have my Permanent Secretary, Robert Devereux, and the Director General Finance or the Finance Director General—it is often described in both directions—Mike Driver, who I thought would be useful to deal with some of the issues around the accounts you may want to raise.

Chair: Great. Jeremy.

Q2 Jeremy Quin: Secretary of State, Universal Credit has been a central plank of the Government's policy of making work pay. I wonder if you would like to outline progress in implementation.

Mr Duncan Smith: Yes; in fact, since the last time I was at the Committee there has been a huge amount of progress and I can give you some of the data on this. The live service is now live in some 60% of jobcentres—that is 500 of the jobcentres. As the Chairman will know, in the north-west it is doing families, couples and singles. The rest of the live service is rolling out to all the other jobcentres on the singles. Essentially, every jobcentre in the spring of next year will have Universal Credit. I will just pause and point out that the reason why we are doing it like that is because there tends to be a fixation on IT. In fact, it is much more than IT; it requires a complete shift in the way that the advisers work. Up until now, somebody on

jobseeker's allowance gets into a jobcentre; they try to find a job; the adviser helps them; they get the job; they disappear. As far as the adviser and the DWP are concerned, they have gone off on to tax credits if they are in part-time work or they have gone into full-time work. Actually, we do not know. We do not track them. We have no relationship with them after that.

Under Universal Credit that completely changes. What happens is the job adviser becomes a work coach, because they now stay with them, because Universal Credit is in work and out of work. What happens is, if they get a part-time job—say 16 hours or 20 hours—at a certain point if they have a problem, they can call the work coach and they can come in and see the work coach. The work coach can then essentially discuss with them what options they have if they run into a problem with the company or something. They have somebody there that helps support. Secondly, the work coach will also want to look to see whether it is time for them to start working more hours—they've settled there; maybe they have caring responsibilities; maybe those are now balanced and settled after a certain period of time and they want to move up.

It is a fundamental difference, which is why we are rolling it out like that—every jobcentre by 2016. New claims for legacy benefits are going to close at 2018 and migration of all the remaining cases starts. The live service, some of that—a large chunk of that—goes into what is now the digital service, which is at the moment being developed, and that is being tested in Sutton, south London, and has now expanded into Croydon as well. The digital service brings in all the other benefits, and that expands out from the spring of next year. It also makes it much more automated, in the sense that it is much easier to access online than the existing design of the live service, which is also a huge improvement on what is in existence at the moment.

I have a very simple point to make to you, Chairman. I would invite you and the Committee to go and visit the live service and the digital set-up and you will get a much better picture of what is going on. You can look at the systems and see the kind of issues that they are dealing with. Just to complete on this point, and I know you will—

Chair: I hope we are going both to Hammersmith and to Croydon to look at those, yes.

Mr Duncan Smith: Perfect. The point I think I would make to you is that even when I reset the plan, I reset it for a reason. If I had known then what I know now, then I would have started on this plan. The reason is so much of it requires interface with others that we have to take this and test it all the way through. A huge amount of this required us to be in complete and constant contact with local authorities—for example, on the housing side. That is a thing we have discovered. We have been rolling out a thing called universal services delivered locally. That means, basically, we need to work for the first time very closely in conjunction with local authorities.

On the board that oversees the rollout, we now have a chief executive of a local authority who sits to advise. There are different types of local authorities. You have the big local authorities, the metropolitan authorities and then you have the small towns, so there needs to be a slight variance in the approach. But one of the things, for example, they have to do is to ensure that the local authorities and the local housing authorities understand who is on benefits so that they can then assess the individual to decide whether or not they require a payment direct or whether they have the payment to themselves. They make that assessment and then we work with them.

Q3 Chair: That is why, Iain, is it not, you fought so hard to keep housing benefit part of the scheme.

Mr Duncan Smith: Yes, because what you will see, I hope, when you go there is how transformative this becomes, in the sense that it is dealing with a person's issues and problems all the way through the system and there is somebody then in the system for the first time ever that becomes that person's mentor, in a sense. I have seen this and I think you will see this when you go to the jobcentres that have this. You will see that the relationship between, now, the claimant and the adviser is a much changed relationship. It is one where they discuss what works for that individual and try to move them on because they can now control that process throughout.

Q4 Chair: It does mean that we will get longitudinal data, does it not?

Mr Duncan Smith: We will get a lot more data. We will know much more about claimant destinations, for example. At the moment, as I say, we do not know. When someone goes into work, we genuinely have no knowledge of where they have gone—why they crashed out of work, what their problems were. At the moment, under the present system, as you know, one of the disincentives to going into work quite often is the fear and the general information that when you crash out of work, sometimes the local authorities can spend some time trying to get your housing benefit back to you again. That can mean that somebody inadvertently ends up with less money out of work than they did before and they do not want to go through that process again. With Universal Credit, it is automatically reset and they will be back with the same adviser, who then will be saying, "Right, let's start all over again. Let's start working you through and then we can sort your problems out".

Chair: Jeremy, do you want to follow through?

Q5 Jeremy Quin: Thank you, yes. Secretary of State, there is a lot of content in there, and I know other colleagues will be picking up on other elements in relation to Universal Credit. You referred specifically to disincentives. We had a witness to our inquiry on tax credits who was trying to suggest that the changes to taper relief under tax credits would undermine the positive benefits of Universal Credit. I just wondered if you had any thoughts on that.

Mr Duncan Smith: I do not agree. I think you are referring to the Resolution Foundation and I think they are wrong on that. Our view and estimation post-Budget is still that under Universal Credit you are better off in work than you are out and, more importantly, the taper on Universal Credit remains what it was. That means that your withdrawal rates are unlikely to get over 80%. It is 65% on the taper, but obviously there are other things to do with housing and sometimes they crash into taxation at that point and they change. But essentially, we do not believe people will be seeing withdrawal rates over 80%, whereas at the moment under tax credits it is, in many cases, over 90%. First of all, that seems like a small amount, but that is quite a lot to someone who is in work.

The second point is that you have to understand there are already big differences anyway in Universal Credit. Universal Credit has a childcare package that is much more generous. Universal Credit will reimburse 85% of childcare costs, not 70%, as it exists at the moment in tax credits. Our estimation is that that is probably around about £1,300 better for all individuals who have children, couples or single parents going into work. That immediately improves the cost, and of course on top of that you have the 30 hours free for four and five year-olds, which is worth probably about another £5,000. That runs also through the tax

credit system, but for Universal Credit the one big additional bit for parents with children is this much more generous reimbursement on childcare costs.

Q6 Mhairi Black: Obviously the summer Budget committed to reducing the welfare spending by more than £12 billion hopefully by 2019-20. How did you prioritise the potential cuts or where cuts could be made?

Mr Duncan Smith: Can I, first of all, in answering this question just make a simple point, which is worth relating? The original plan for £12 billion was to take place in two years after the election. You will note that for welfare there was an extra two-year extension. If you look at where we have arrived in the first two years, it is considerably less than the original plan—just over £7 billion, if you look at the accounts. Now, I make no other comment other than that is not exactly what the original plan was. First of all, I think that has helped a number of people who may have been affected by the changes that were necessary to make. I simply make that as a simple point.

I have always tried, and the Department has always tried, to make it our principal plan that those we think are the most vulnerable will be the most protected in the process. I do not say for one moment that these things are easy. It would be great to live in a world where there was no deficit and we did not have to make these changes and these savings. With regards to what the Department does, we have tried, I believe very hard, to ensure that that is the case. For example, we ensured that people on the support group, people in disabilities are not having their monies frozen in the same way that others are. They will see those rise in line with inflation, as inflation begins to grow. Those changes are good examples of how we have tried to do this.

With Universal Credit, we were very clear we wanted to keep the taper as it was, because progression at this particular time is the key element to this. It is possible to say, for example, the two elements of Universal Credit that help the more vulnerable get into work and then progress—at the moment there are 750,000 vacancies in the jobcentres, so the key element for people now is progression in work, arguably more than getting them into work, because that incentive is hugely there. It may be that if you were to fall into a recession, you would then want to change the allowances and maybe add to those because that might be the priority, but Universal Credit gives you that option. It also gives the option to help with people going back to work who have had a health condition, because that makes it a more generous position for them as well. We have tried to prioritise people who have the greatest difficulty in these kind of choices.

Q7 Mhairi Black: How did you assess what the potential impacts to the most vulnerable claimants would be when you pressed ahead with making decisions?

Mr Duncan Smith: We did spend some time looking at individual cases—exemplary cases—and we also looked across the board at what the general effect would be in terms, not just of the amount to be saved, of course, but hugely looked at how that would affect different groups of people; what we thought, first of all, their static outcomes would be. Secondly, what we do—which perhaps others do not do—is to try to understand what changes could be made in the way they live their lives to improve their situation, rather than sit statically in that particular set-up that they are in. We did a huge amount of work trying to look at these particular case studies and get some kind of sense of how this would work and what we thought would not work. We were quite strong about the things we did not want to do.

Q8 Mhairi Black: Following on from that, the Trussell Trust says that in Scotland the number of people using their Scottish-based food banks has increased by 398% between 2012 and 2014. Do you think there is any correlation between the kind of welfare reforms that are being implemented and—

Mr Duncan Smith: I do not know if we are going to come to food banks later, but I am happy to answer this now because there are a couple of points I want to make, if the Chairman is happy for me to do that.

Chair: Indeed.

Mr Duncan Smith: While the Trussell Trust figures are genuinely put together, Real Fact or True Fact, I think it is, made the point during the course of the election that some of these figures are not absolutely clear—that they are specifically about individual cases or the connections with them. Rather than hang on the Trussell Trust figures, there are a couple of points I would like to make around this: I am fully in support of food banks and what they do. That is part of what society does when it thinks there is an issue or problem, and I think it is excellent; but what we have always said is that wherever there are cases that are identified as issues, where people might go to a food bank because of what they perceive to be a problem with the Department, then we will always pick those up. As a result of the report, we looked again at things like hardship funds and advance payments. Advance payments are much more advertised now in every single jobcentre. We ensure that all the advisers tell everybody categorically, whatever is happening, “You are eligible for these particular payments”—hardship payments—as well.

Something that I am also just trialling at the moment, which the Committee will not be aware of—I have not said anything about it before, but I will perhaps give this to the Committee this time—is that I was visited by a particular food bank before the summer break to talk about some of the issues about delivering food and some of the problems with individuals that turn up and say they have a problem with their payment. I am trialling at the moment a job adviser situating themselves in the food bank for the time that the food bank is open—and we are already getting very strong feedback about that—where they will be able to check if somebody comes in and says, “I don’t have a payment,” or, “I have not received it,” and they can immediately check. I am going to ask the Permanent Secretary to say a word about some of the results of this far. If this works and if the other food banks are willing to encompass this, I think we would like to roll this out across the whole of the UK.

Robert Devereux: The food bank in question is the Lalley Welcome Centre in Manchester. I have two of my work coaches, Nicola and Tracey, who are down there one day a week. They also have a phone line there—they have a dedicated call if they want to call on any other days. They are basically there to provide support to people who come in and that can include people saying, “I don’t think I have had my payment.” One particular recent case was somebody who said that they rang the benefit centre and they said the individual had not submitted a medical certificate. The individual said, “I have one of those.” He produced it to the member of staff on site, confirmed that to the benefit centre and they released the payment immediately.

The thing that is more interesting to me was that I said, “How often is this happening?” and they said, “A bit, but what’s happening much more now is not people coming in with questions about their benefits, but they are interested in, ‘Where are there vacancies? Where can I find work?’” These work coaches have teamed up with local job clubs and they are

spending more of their time pointing people to vacancies and to work than they are in fixing their benefits. This appears to be well received at the moment. They have access to our systems at present and if this does work, it would be excellent.

Chair: It is a good reform.

Mr Duncan Smith: We will be happy to publish the results or whatever, but no one is aware of it yet. You are now the first to know about it.

Q9 Chair: In the Birkenhead food bank, where they have a welfare rights adviser, 90% of people did not return because the person sorted out their benefit problems. I would have thought it would be that the sooner you can roll it out, Secretary of State, the better.

Mr Duncan Smith: Yes.

Robert Devereux: I guess the evidence that I am suggesting is that it is not that 90% of people turning up have benefit problems, because the minority of people who are dealing with my work coaches when they are present do not have benefit problems, but they are interested in work.

Mr Duncan Smith: But either way.

Chair: Yes. I think when you roll it out, you might find there are differences in different areas.

Mr Duncan Smith: Yes, but either way I am hoping that if this works—and it sounds like it is working—then we will certainly want to roll it out to all food banks.

Chair: Emma, do you have a quick question here following?

Q10 Mrs Emma Lewell-Buck: Good morning, everyone. A lot of people who come to my surgery and my local food bank because they have been unfairly sanctioned. The previous Work and Pensions Committee report raised concerns over the death of some vulnerable clients because they had been unfairly sanctioned and about the regime distorting the JSA figures. I know that the Secretary of State recently responded, after four months, to that report but is refusing to investigate whether sanctions are being applied appropriately, fairly and proportionately. I am just wondering, what is it that the Department is concerned about and why will they not carry out that recommendation?

Mr Duncan Smith: We are not concerned, other than that we spend our whole time constantly reassessing how sanctions are applied and checking. We have had already the Oakley Review, which looked into this in some detail. We followed up on the Select Committee and the work that the Chairman did before he became Chairman on sanctions. We have made alterations to sanctions all the way through. I looked again in light of the report to wonder whether or not there was some scope for us to make some adjustments so that we give people more time to be able to counter a sanction with information. We had already introduced a mandatory review immediately, which took place, but the note that I sent to the Select Committee last week made the point that we were happy to look and trial this two-week period, so somebody is being told they are sanctioned and then within two weeks they are urged to bring forward any information or any concerns that they have about that sanction that may prove that the sanction would be a wrong sanction.

Robert Devereux: Any additional information.

Mr Duncan Smith: Additional information that has not been considered or was not understood. That will be the process, so that gives somebody, I am hoping—and we will see—the scope to be able to, if there is a problem, demonstrate that. The mandatory reconsideration anyway does that at the moment, but it does it after the event. This is trying to look to see whether we can do something before the event.

In answer to you, I do not have an internal concern that these are being applied in any way, I hope, other than fairly. Will there be the occasional problems inside the system? Of course there will, but we have a process that identifies where somebody has done something incorrectly and that is then corrected through the mandatory process, and then of course there is the appeals process as well that follows.

Q11 Mrs Emma Lewell-Buck: Do you understand, though, what it looks like to people out there who are saying that they have had relatives who have taken their own lives because they have been unfairly sanctioned, yet your Department is refusing to do a proper review into that? Do you understand the magnitude of that—that people have taken their own lives because of this and the Department is not looking at it fully?

Mr Duncan Smith: The Department has looked at it and continues to look at it. As I said, we did the Oakley Review. We asked that review to look very carefully at the application of sanctions—how they work—and make recommendations. We have accepted all the recommendations. As I said, we have looked carefully at the recommendations made in the Select Committee, the vast majority of which I have said that we will accept. I went somewhat further, I think, in the course of that.

I do not accept your assertion somehow that these things are directly linked. These are tragedies in their own right and they are often very complex as individual cases. My main point is that sanctions have been part of the benefit system for some time. Under the last Labour Government they were accepted as part of the benefit system and I always accepted them. I always recognised there were issues occasionally and problems, but I did not go around accusing the then Labour Government of running a system that somehow ended up in the way that you are making this allegation. I would only urge you by all means to bring any cases forward that you have issues with and we will deal with them individually. We review cases individually and see if there are problems in process or in the way that the rules are applied, but I hope and believe that the advisers apply sanctions in a way that delivers what they are meant to do.

It is quite interesting, because the figures on the sanction side of things have shown that the numbers of sanctions we have been producing has been falling. It is down from 888,000 to 507,000 last year, which is a big fall. On ESA, it has stabilised at 22.4% of the original adverse decisions being overturned now at review. What you are getting is fewer people going to appeal. The mandatory process helps resolve that and I hope and believe the changes that we have made again will help.

Chair: We are going to come back to you, Secretary of State, on that, but John—

Mrs Emma Lewell-Buck: Can I just quickly ask for one comment, please?

Chair: No, John is the next question.

Q12 John Glen: If I can turn to administrative expenditure in the Department, between 2010-11 and 2015-16, I think the Department sought to make 29% reductions in administrative expenditure at a time of significant innovation in terms of policy. The NAO report recognised that challenge to reconcile reduction in administrative expenditure while innovating in policy. A few weeks ago it was reported that the Department and you, Secretary of State, were unwilling to submit plans for further reductions of 40% in the context of the spending review.

Chair: Quite right, too.

John Glen: Is there not a point at which all of this policy innovation that your Department is engaged in will not be able to function properly if the administrative expenditure cuts continue at the pace of 40%?

Mr Duncan Smith: First of all, I never comment on reports that are not in the papers—

John Glen: But how far can it go?

Mr Duncan Smith—strangely enough, but my general view about this is there is always a balance in these things. I think this is a matter that is accepted by the Government across the board, including the Treasury. We have made significant efficiencies in our service. I am going to ask the Permanent Secretary just to come to a couple of good examples of where you can reduce the running costs and still deliver a better service. Like any business out there, that is what you have to do, but all of this is caveated around the base delivery of what we have to do every day, which is to deliver a service to people who need our support, whether it be in terms of out of work claimants or people on disability benefits or whatever. We still have to provide that.

Our running costs are just below £2 billion, reduced from what originally I inherited in the course of the Department, so down to £7.2 billion, which is in itself a pretty remarkable occurrence, I think. Are there further changes? Of course, in due course, as we bring in things like Universal Credit, which dramatically improved both the efficiency and reduced the running costs of the Department. I am going to ask the Permanent Secretary to give some examples, if it is all right with you, of how we have increased efficiency without reducing any of our ability to deliver the service.

Robert Devereux: It is a good question, and it is one that I spend a lot of time thinking about. The bid that we put in I am very confident we can execute, so I will explain that in a minute. But in terms of what we have done historically, a lot of what we have done is just make the process go better. We have benefited in one sense from the recovery in the economy, which means we have fewer people in jobcentres because the caseload is reduced, obviously. The attention to detail that my ops colleagues have had in just making sure that the best practice in office No. 1 is translated into office No. 21—that people do things once rather than do them multiple times—is paying very significant dividends. I picked some numbers before we came, so—

Q13 Chair: Robert, do you have a unit that picks up on the best examples and spreads them?

Robert Devereux: Yes, exactly, but more particularly than that, it is strongly in the culture of the way the operations group is being run that people expect to have comparisons made and lessons learned. For example, we used to have 7.4 million calls a month coming in in March 2012 and I have 4.2 million calls a month coming in now. That is largely the consequence of

doing lots and lots of work to take off people handing one bit of work to another—“I’ll just have to wait to speak to my colleague.” At the same time, we have managed to have the people redialling us—you can check with modern technology whether Mr Field rang us last month as well as this month. We measure that, the amount of redials. Redials of pensions were at 22% in March 2014; they are down at 10% now. We are constantly taking things out of the process and making it work more smoothly.

Q14 John Glen: But at the same time you got rid of 5,700 staff, you have a 65% increase in the number of temporary staff and a skills gap. How are you managing the workforce alongside those changes?

Robert Devereux: We have taken out way more than that in total. We are down 20,000 or 30,000 staff from where we were when I took over. That, as I say, is partly to do with—

John Glen: I was meaning in the last account year, in terms of 5,700.

Robert Devereux: Yes, sorry. We are doing two things. The general trend of staffing in the Department is going down. It has been going down since I first came across to the Department. We had 160,000 staff. When I took over it had 110,000 and now we have 74,000 staff. It will be lower still into the future, conscious that that is declining. It does not decline uniformly in every single office in every part of the business. Where, for example, I have some temporary work—which I know I have to take everybody off the old child maintenance systems and put them on to the new one that is functioning well—it is not sensible for me to recruit more permanent staff, knowing that the work for that will not be there in two years. We are trying to make targeted interventions, taking on those people that we need in particular areas, conscious that the general trend of staffing will be down.

To come back to the question you asked about what is plausible into the future, I agree with you that you cannot just pedal faster forever. The people that I have running this have done exceptionally well. They have been averaging 7% per year average improvements on things. Looking ahead though, the big thing that happened in this Parliament is that virtually all of the reforms that the Secretary of State has led are maturing in this Parliament big time. If I go back to child maintenance, for example, in the old systems we would be writing out to the absent parent to say, “How much are you earning?” There would then be some interchange about it all. In the new system, we simply go to the Revenue and they tell us how much that person is earning, so the thing is done in days. There is less work to be done; the system is more automated. If you think about what we are doing in—

Q15 Chair: But is that not the case the Treasury is making to you? If all the reforms the Secretary of State laid in the last Parliament are coming to fruition in this Parliament, is that not the case for these terribly big cuts they are demanding from you?

Robert Devereux: They have an envelope that they are looking for in the MAC arithmetic and they have asked us to make a contribution. You will have to wait until we get to the end, but the chances that we are going to end up with more money than we started is quite low. The reason that I am giving you these examples is, even from my perspective, trying to take an organisation of this size through a big change, I do think there are material things happening in the processing—in the technological support for that processing—which means we can make substantial savings and still deliver better service. I meant to pick this up, but as we published just the other day, customer satisfaction in JSA, for example, rose 4 percentage points—80% to 84%—and ESA was 79% to 85%. The combination of being on top of your

work means you process more cheaply and people are happier with you. There is a virtuous circle going on here, which I have been extremely impressed with.

Mr Duncan Smith: A small point on productivity: it is a small point that will be helpful to the Committee.

Chair: All right, and then we will move to Karen.

Mike Driver: I will just build on Robert's point, in actual fact. The accounts also set out our productivity story as an organisation. You will see that since 2010-11 our productivity as an organisation has increased by about 14%. If you go back to 2007-08, our productivity has increased by nearly 50% against a scale. I think it is not just that the costs have come down, but as Robert has said, the quality of what we do and the throughput of what we do has risen as well.

Chair: Karen, can you take us to some other aspect of the accounts, please?

Q16 Ms Karen Buck: Secretary of State, can I ask about the qualification of the Department's accounts, which as we know have been qualified for, I think, 26 years running? When the 2010-11 accounts were qualified, the Department said, "Our welfare reforms will simplify the benefit system and make it less open to mistakes. We are absolutely committed to reducing fraud and error and our new strategy sets out plans to tackle this problem." That was at the beginning of the last Parliament, so is it an embarrassment that the accounts have been qualified again?

Mr Duncan Smith: I have a view about this, which is that this is arguably, I think, more about parliamentary process than it is about logic. If this was outside and it was a company, I do not think this would be happening like this. I suspect what is going on here is that nobody wants to be the first person not to qualify the accounts of this Department, because that would then put them in the position of being asked why are they now proceeding in that manner. I think there is an element of this going on, which is nobody quite wants to break ranks.

We have reduced the costs. We have borne down—and there is more to do, and I am sure you will ask more about fraud and error—with some significant results. For example, on our fraud and error position, which we can discuss and debate, but if you look at the corresponding equivalence in the insurance industry, fraud and error levels are much higher outside than they are here. We have more to do—much more to do—but they do not have their accounts qualified. I simply make the observation that I think it is about time—and I have made this before privately—that we did this properly, rather than this process of saying, "We are not going to allow this to change". It should change by now, I think.

Q17 Ms Karen Buck: No doubt there is a debate to be had about that, but of course, as you say, it is the first time I think this has been said publicly. Is the implication of what you are saying that you do not expect the Department to ever have its accounts unqualified? Are you throwing up your hands in defeat now?

Mr Duncan Smith: It is not a question I can answer. All I am saying is I see no evidence to suggest that logic is being applied to this in the normal way. These accounts are presented, they are supported and backed up by the evidence and the information. Obviously there are questions raised throughout and things that people think we ought to do better or not so well, but there are no outstanding reasons, I do not think, why these accounts should—

Robert Devereux: It might just help to say that the qualification is absolutely not saying the accounts are mis-stated.

Mr Duncan Smith: Yes.

Robert Devereux: It is not qualification as it means in English—“There is something wrong with the accounts.” They are being qualified on a matter of regularity. Parliament did not intend anything should go wrong. Things have gone wrong; ergo, they are qualified. There is obviously, because the C&AG has talked about this, a degree of materiality, but his conclusion is that what Parliament wanted is not what is happening and that is why he is qualifying it. He is not qualifying it because he thinks the numbers are wrong.

Mr Duncan Smith: Yes, that is the point I was trying to make. If I could just bring Mike Driver in, because it will make this a little bit clearer.

Mike Driver: Yes, I was just going to make two points, one built on Robert’s, because what the Comptroller and Auditor General says in the accounts is, “The financial statements give a true and fair view of the state of the Department and the Departmental Group’s affairs at 31 March 2015.” It is quite an important thing and it is often overlooked, as Robert has said. What does that mean? If we were a plc, it would mean would a shareholder’s decision about an investment choice be materially changed as a result of any variations in the accounts? What it is saying is no, they are not.

In an ideal world, we would not want our accounts qualified and certainly we would not want them to have been qualified since 1988. Fraud and error is at the lowest rate that it has been since 2004-05 at the moment. We are also working very closely with the National Audit Office so that we can get a better understanding and so that they have a better understanding of what is driving fraud and error in each of the benefits, rather than considering it as a global issue. If you take two examples, jobseeker’s allowance and pension credit, a huge amount of the fraud and error is driven by changes in income, so we are focusing our time and resource on that with a view to then attempting to persuade the National Audit Office that we have invested carefully to tackle the root cause of the problem, rather than just have a scattergun approach to try to solve everything.

Q18 Ms Karen Buck: I am sure that is helpful and I think probably there will be a question further on that. This may be a debate that is worth having. It is just it does seem to me that you are now agreeing to shift the goalposts and that may be something that everybody would want to consider, but it is certainly not in line with previous responses to PAC reports on the qualification of the—

Robert Devereux: I routinely appear in front of the Public Accounts Committee on fraud and error. The last time I was there, they specifically asked me did I think this was going to change. There is an amount I can do within the Department with the Secretary of State working on making things simpler and so on, which we will talk about in the welfare reforms. There comes a point at which there is a judgment call to be made and that judgment lies in the hands of the C&AG. It is not our judgment.

Mr Duncan Smith: What I would say to you is that you have been around in this political firmament long enough to recognise this process has gone on through different Governments all the way through.

Ms Karen Buck: Indeed.

Mr Duncan Smith: I simply make the observation that I am not sure this tells you very much about the accounts when they are qualified.

Q19 Ms Karen Buck: Indeed. I have been around long enough to know that when the accounts were qualified during previous Governments, then there was quite a lot of criticism from yourself for doing it.

Mr Duncan Smith: Yes, my point is—

Ms Karen Buck: So if we are going to follow that line, we can follow it all the way.

Mr Duncan Smith: I hope I am, however, being more generous to previous Governments. I am simply saying I think this does not tell you very much about the accounts.

Q20 Ms Karen Buck: Can I just come back? You do not expect, under present circumstances, that the accounts would ever not be qualified?

Robert Devereux: No, I—

Mr Duncan Smith: I can answer. I do not think we can say that. What we are saying is—and the Permanent Secretary can come in in a second on this one—my view about this is, as I understand it, that I do not see when that decision will be made. I do not say it will not be made; I simply say that I cannot see that, but the Permanent Secretary may have a different view.

Robert Devereux: Let us try to be a bit more constructive. The work that we have doing with the National Audit Office, the line they have been taking with us is, “Show us that you comprehend the problem. Show us that, given the comprehension, you are doing all that is reasonable to do. By the way, we will judge what is reasonable and it cannot be in any way cash limited. It is reasonable if you have done it, but if you have a plan and you understand it, then it might be possible for us not to qualify that part of the benefit.” That is the challenge they put down and we have made some good progress on one element of this, pension credit. There is more to do on that. I pitched to the Public Accounts Committee when I started that I am going to be the accounting officer that does have this qualification lifted, because I do not see why I should not. Some of the stuff to do with welfare reform does materially change the Universal Credit for some and for some it is not a problem.

Q21 Ms Karen Buck: I am coming on to that. Can I just ask a couple of questions about the money, rather than about the process of signing off? We all agree that £3 billion-plus or whatever the sum is in any given year is better spent than in overpayments. But looking at the PAC report that came out last night, it appears to indicate or at least the report states that fraud and error is anticipated to increase from £4.6 billion in total to £5.8 billion by the 2021 financial year. Do you recognise that figure? We are going in the wrong direction.

Robert Devereux: Forgive me for making this complicated, but the words “Universal Credit” mean that we are going to be taking into our Department everything that is currently measured in tax credits. Universal Credit is much better in the round than tax credits and the benefits it is replacing, but because there are significant quantities of fraud and error in the tax credits system—and by the way, it is measured differently because they have a different process—what you are looking at there is the measure of fraud and error we are expecting in a combined system, based on it being DWP numbers.

Q22 Ms Karen Buck: The PAC do not understand that point?

Robert Devereux: We tried to explain it.

Mr Duncan Smith: Yes, we did.

Ms Karen Buck: I wonder if it is possible then for you to set out that argument for us, so that you are comparing like with like, because otherwise I do not know if we can—

Mr Duncan Smith: If the Chairman agrees, I would be very happy for us to write in some detail to the Committee, so that at least this Committee—

Robert Devereux: Some detail.

Mr Duncan Smith: Some detail.

Mike Driver: It is worth just noting that in our accounts—and I know these are large figures—fraud and error in 2013 was reported at £3.3 billion; in 2014-15 that had fallen to £3.2 billion. Not only did we see a percentage reduction, but we saw a cash reduction. Also, the 1.9% of fraud and error in DWP is a gross figure—that is, before we recover any of that money that we identify, so in net terms it is about 1.5%.

Q23 Ms Karen Buck: Just looking at what the PAC report says last night, they clearly do not understand or accept—I do not know which—the way you have laid the figures out, so maybe those figures could be set out in a way that compares like with like and allows us to make that judgment.

Mr Duncan Smith: We are happy to do that. We are very happy to do that for this Committee, yes.

Q24 Ms Karen Buck: Universal Credit is obviously seen as one of the ways of simplifying the process and reducing that, but again, looking at that combined figure, as you say, with the HMRC and DWP figures together, the £5.8 billion, the Universal Credit projected savings are £500 million, so less than 10% of that. That still leaves, in fact, 90% of the total fraud and error calculation, even if you are accepting your argument about combining the two figures. Do you have targets or when will you have specific targets for dealing with reductions in fraud and error in everything that is not Universal Credit, in other words, the overwhelming majority of expenditure?

Mr Duncan Smith: Yes, we do. If I could just come back to the Universal Credit point, the point that I would make is—and the point has been made—we absorb an already flawed process that brings with it a certain amount of debt. One of the basic reasons why Universal Credit will resolve that over a period is because the RTI process, which is inherent now in the Universal Credit system, allows us to do regular and very fast checks on people—what they are doing, what earnings they have and so on—and that flows automatically into the system, which is not the case, or has not been the case, heretofore. Universal Credit does automatically have a process so that by combining this, it brings it in, allows us to reduce that and brings net savings even beyond the debt levels that we are talking about here to the Exchequer. That is exactly the case. I do not know if you want to put any particular figures around this.

Q25 Ms Karen Buck: If you are projecting a £500 million saving from Universal Credit—and, for argument's sake, that can be achieved by the time the rollout happens, whenever the rollout happens—that still leaves the overwhelming majority of the combined fraud and error sum of money unachieved. I just wondered if you could tell us whether there are specific targets for that reduction and what they may be, how much you expect to save.

Mr Duncan Smith: Do you want to pick this one up?

Robert Devereux: The Government set a target for the last Parliament. We are currently right in the middle of a spending review, which will tell me how many people I have to do what sorts of work, at the back of which it will be perfectly possible to then have a sensible conversation about what we think the levels of fraud and error are.

Ms Karen Buck: So you cannot say now?

Robert Devereux: I cannot do it until we have agreed how much—

Mr Duncan Smith: I suggest what we do is, after it is all over, we can comment back to you on that one.

Q26 Craig Mackinlay: Secretary of State, you mentioned RTI. It was quite a burdensome system for a lot of smaller employers to get their head around and make it work, frankly. Do you think it has had beneficial effects in driving down levels of fraud? Do you think it has been worth, dare I say, the aggravation to the smaller employer and that it has borne a lot of fruit?

Mr Duncan Smith: Can I just say, I think it is hugely important in this bearing down not just on fraud, but also on error too—it will help adjust that. It automatically helps. There was a lot of scepticism about the ability to deliver it. It has been delivered; it is now working. We have been using it in other areas in advance of Universal Credit's arrival to check against payments. It allowed us to clean some of our own records and allowed us to get after some of this area because the information is now much more obtainable. We are looking to do other areas as well in advance. The Permanent Secretary might want to say a little bit more about that, but it has been worth while. I know smaller businesses were concerned about it, but I think now they will find that, once settled into this, it makes life a lot easier for them. It will make life a lot easier for the people they employ who may be on Universal Credit in the future but are on tax credits at the moment, so that they do not end up in this terrible process of waiting for a year on a projection of income and then getting told at the end of the year, "Can I have X thousand pounds back because we had that all wrong?" This does a month-to-month adjustment and that is what really helps.

Robert Devereux: Just to be kind to our HMRC colleagues, the rules for tax credits are the rules for tax credits and they do not require month-by-month-by-month adjustment—or, indeed, fortnight by fortnight—which is what we have been trying to run. When I made the point earlier to Ms Buck about bringing these two systems together, we are trying to establish what the right set of rules is for a combined Universal Credit rollout. Is the thing bearing fruit? It absolutely certainly is. It is enabling us to make sure that people do not have to tell us what they have earned because we have learned from their employer. We are doing that in real time before we make the payment, so Universal Credit payments are going out after the employer has told us what the relevant month's income was, so there is no question of then having to collect money back or chase people up for non-declaration and so on.

We are perfectly conscious there is a burden on business around this, but that is having a huge impact on what we can then confidently say to people, because when our advisers sit down—and this is what you will see when you go to see it, Chair—they are really pleased. Advisers have said to me, "This is the policy I've been waiting for 30 years to see," and that is because they can look people in the eye now and say, "You will be better off in work."

Q27 Chair: Are all those claiming a Universal Credit having their credit based on real-time income? Are you having to deal with that calculation?

Robert Devereux: All of those who are in employment. Those who are self-employed, understandably, have to tell us because they do not reconcile with the Revenue until a long time after the event. But for the great majority of people that are coming through our doors, even if they do two weeks' work with one company—ping: the information comes straight back, we calculate it. If no ping comes back, they have not been working, the Universal Credit goes back up. That is why having an out-of-work and in-work benefit is having such profound effects on people's attitudes.

Q28 Craig Williams: Secretary of State, we have discussed fraud and error, and I wonder whether we could look at the housing benefit aspect to it, because it has increased over the past two years. I was wondering why you thought that was.

Robert Devereux: The principal reason housing benefit fraud and error has increased is because of customer error. The levels of fraud in housing benefit, the rate of that has not changed. The rate of official error has not changed; it is customer error. That is primarily to do with earnings, because as you go through a recession, more people find themselves on housing benefit in work than they would otherwise. If you are in work and you do not have RTI, then every time your earnings change, the law, which the C&AG is managing on your behalf, requires me to keep changing it. People make mistakes.

In many of these cases, because we have had some quite clever analysis of this, looking at our own debts that we create, we are talking about people being late in telling us. It is not that they do not tell us, but you can see evidence in our data that people are telling us one week later than they should have done—two weeks later, three weeks later. We take that information, we correct it and we recover it—which is the point my colleague was making—but the figures that you are reading are the gross mistakes. If a lot of this is late reported stuff that I then recover automatically from benefits, for the large part the underlying story is that it has something to do with earnings, which now we are recovering, and in future we will not be making these mistakes.

Mr Duncan Smith: It is worth bearing in mind that, overall, we talked about recovery on debt anyway. I was just checking with Mike Driver and he just said to me, quite rightly, that on housing benefit it is at an equivalent level of recovery. What very rarely gets reported through these reports is that the recovery rate is quite high, mostly because some of this stuff adjusts itself anyway, in the sense that people are late rather than deliberately not paying it. It tends to be all swept up into the one box called fraud. It is not. Sometimes these are legitimate errors.

Mike Driver: Just picking up on the point, because Mr Mackinlay raised the issue of real-time information, in order to try to support local government much more directly from the Department, we have been sharing more of the data that we hold—more of the real-time information data—with local government, so that they can test their systems against that RTI data so that they can make more corrections. We believe that that is starting to bear fruit as well.

Q29 Craig Williams: That ties in very nicely with the report that came out from the Public Accounts Committee today. The key recommendation in that was that the Department should exploit third-party data such as banks, local councils, social media and such to identify

those high-risk claims. What are you planning to do with that recommendation? It sounds like you are doing something.

Mr Duncan Smith: First, we have already started, so in a sense the PAC was reporting on something we have already identified and want to do. The second part of it of course is that as Universal Credit rolls out, what that does automatically—I referred earlier to universal services delivered locally. That is hugely about constant conversation with housing providers, local authorities, identifying the at-risk groups. A lot of people have asked, “Why, for example, did you design in the process and say you want to pay people in social housing their money direct and get them to pay the rent?” It is because this gets housing associations and councils to then understand who their tenants are much better and then identify who those tenants are they think are at risk and then ask for a specific change of payment. That requires that conversation between the Department and the housing provider and/or the local authority.

What we want to see done then is not that they have just been identified as a problem, but then we will ask the local authority, “What programmes of change will you put around that family, such as debt advice?” Maybe it is to do with chaotic lifestyles through drugs and so on—in other words, “What are we going to do to try to get that family turned around so they become a more stable person?” That helps as well going forward. It will help enormously. It is part of the huge changes that will come through the local services that are now going to be rolled out with Universal Credit, so it is a big practical change to help families in the greatest difficulty.

Mike Driver: But we do see the strength of better data as being a key component of our strategy as we go forward. We are looking again with the National Audit Office at where the best places are to do that data-matching—what are the best sources of that data? I will just give you one example, just off the top of my head. There are lots of pensioners who live abroad. A lot of them, their families do not tell us when they die, so what we are doing at the moment is we are cross-referencing with the death data of those other countries, occasionally buying that data where we need to, so that we can do the correct data-matching to cancel the claims appropriately.

Mr Duncan Smith: It is worth mentioning, with the recent Greek issues, we had to accelerate quite a lot of that process to discover who was still there, as it were, and we made quite a lot of interesting discoveries.

Q30 Chair: Now that there is a new Secretary of State in charge of local government, Iain, are you going to open up the question again whether housing benefit should be a payment within Universal Credit rather than you having this rather complicated arrangement with local authorities?

Mr Duncan Smith: Housing benefit will be within Universal Credit.

Q31 Chair: It is, but at the moment you have this arrangement with local authorities as well, have you not?

Mr Duncan Smith: Yes. What we are discovering and creating now is a much better relationship with local authorities. The relationship with the Department of local authorities is improving all the time infinitely because of the arrival of Universal Credit. That means that we are now not just trialling, but opening up this link and testing this. The information flow between the two is now getting much improved; we want to improve that process. But as we

step forward on to Universal Credit, that process then becomes a fact; in other words, Universal Credit absorbs the housing benefit change.

Q32 Chair: And council tax benefits?

Mr Duncan Smith: I was wondering if you meant also the council tax benefit.

Chair: No, I was interested in both.

Mr Duncan Smith: The council tax benefit of course went in the other direction. It was originally in the proposal for it to be part of Universal Credit, but it was decided and agreed that it was the right thing to localise, and that we have had to discuss and stay very close to the local authorities, so that we do not see the way they set council tax benefit as acting as a disincentive to return to work. We have been very careful in discussions with them to try to make sure they do not over-adjust this. That has been part of the discussion.

Q33 Chair: It has added significantly to the marginal tax rate, has it not?

Mr Duncan Smith: It could possibly cause that problem, but we have tried our level best with local authorities to ensure that that does not happen, and so far that is not the case. Do you want to say anything on it?

Robert Devereux: You half-implied there was some housing benefit that sits outside Universal Credit.

Q34 Chair: No, it does not, but you still have to have this slightly complicated relationship, do you not?

Mr Duncan Smith: Yes, I think also more council tax benefit than housing benefit.

Robert Devereux: The relationship in respect of housing benefit is going to become simpler. As the Secretary of State said, working with local government, in particular around the right treatment of vulnerable people, is a growing piece of business. Those are two slightly different things.

Q35 Mrs Emma Lewell-Buck: I just wanted to turn to the topic of underpayments. As you know, they lead to extreme hardship for some people. In fact, at present in the Department they amount to £1.4 billion. The annual report has also shown that there has been little improvement made on this, yet when overpayments have been made, my constituents are saying that the Department is very quick to claw them back. For instance, a number of people in my constituency have had their overpayments of working tax credit clawed back through cuts to their child tax credit, which is pushing them into extreme hardship. My question is: will you set a target for underpayments and can you confirm or not if it is now DWP policy to cut child tax credit when the Department has made overpayments in error to people?

Mr Duncan Smith: Can I just make an important observation? The tax credit system, as it runs right now, is the responsibility of HMRC in terms of overpayments, underpayments and collections.

Q36 Mrs Emma Lewell-Buck: But presumably you talk to each other and you are aware of this situation?

Mr Duncan Smith: We of course do our level best to make sure that we are aware of that. As it comes to Universal Credit, I believe two things will happen. First of all, you will see less of that process take place because the system itself is a much more accurate process, much more automated, and with the permanent job adviser there, all of this stuff will be available

for discussion constantly with individuals. That is the point I make about Universal Credit hugely helping with that process.

But right now your references to tax credits and so on are very much a question for HMRC. We are working with them, talking to them, keeping that line open through RTI and other facilities to make sure that we try to identify people who are in difficulty. As I said before, the problem with the present system is that once they leave jobseeker's allowance, they go on to tax credits and they are no longer eligible to be discussing that problem with the jobcentre—it is something they discuss theoretically with the tax credit officers. The observation is they are not set up in the same way as the DWP is to deal directly with people on a face-to-face basis, as we will do under Universal Credit. That will be a major advance on that, and I believe that will help identify and solve that problem, because having a jobs adviser there available for you, should all else fail, does give you that belt-and-braces point that says, "This individual has a problem. Let us sort it out now," which is one of the reasons why I want to put somebody into the food banks and so on to try to get that same process.

Q37 Mrs Emma Lewell-Buck: What is the Department doing about these underpayments that amount to £1.4 billion, because that is a lot of money?

Mr Duncan Smith: Do you want to pick up the issues around that?

Robert Devereux: In the same way I was asked a question about whether they have a target for overpayments, I can give you a similar answer: that in the process of us going through the spending review, we are going to identify what resources the Government wants to spend on this particular area.

Chair: Robert, might you speak up?

Robert Devereux: I am sorry. You were asking about the target for overpayments and my answer was that I am going through the spending round and we are trying to establish with the Secretary of State how much resource is there available for doing things. In practice, most of the process improvements, which I talked to you about earlier—about doing things once, doing them better—apply as well to overpayments as they do underpayments, so most of the action that the Department is taking to live within its budget and to run good processes is almost blind to whether it is an overpayment or an underpayment. Progress in this area ought to affect both equally.

You are absolutely right: the level of underpayments has been stable for a while, but the collection of, "What sort of things could you do that would change underpayments?" is almost exactly one and the same as, "What sort of things could you do to stop overpayments?" It is about getting things right; it is about applying quality processes. It is not clear that there are policy choices I have that would make underpayments more—

Mr Duncan Smith: It is worth just giving you a figure on this one, because I mentioned Universal Credit—and I am just looking up to see if I can find the figure. Interestingly, the change that UC will make could be as high as £1.6 billion in later years. For example, here we go: real-time information has already saved some £123 million when it comes to underpayments and will generate a further £356 million savings between 2015-16 and 2021, so we have already begun to—

Q38 Mrs Emma Lewell-Buck: But that is a projection.

Mr Duncan Smith: Yes, but what I am saying to you is that this incorporates the tax credit point that you are saying is in existence—and that at the moment we do not have control

of—but, as under Universal Credit, we will be able to materially help and assist that process and improve it dramatically through Universal Credit.

Q39 Mrs Emma Lewell-Buck: Can I just go back to a point that you made, Robert? You said you were treating underpayments and overpayments the same across the board. Do you not think that underpayments should have a bit more priority?

Robert Devereux: I am keen on people getting—

Q40 Chair: Could that priority not be writ large if you had a target to reduce underpayments?

Robert Devereux: We can construct targets. I am interested in—

Chair: Meeting them is more important, isn't it?

Robert Devereux—what in practice is different in the processing. I have given you a perfectly good exposition of how it is that we are now running at a cost of £2 billion a year less than we were previously by running the process with better quality. Better quality is the answer to making sure that errors we make are put right. Some of this underpayment is also to do with customers not declaring things. The thing about RTI, which is a big element of our fraud and error, a lot which is to do with earnings, is to make sure people know what they are entitled to. If we know that their earnings have gone down, we can pay them; we do not have to wait for them. It works both ways.

Q41 Mrs Emma Lewell-Buck: I do not think you can, so to speak, put it all into their lap though, can you? There might be the odd person who does that. I think essentially the point I am trying to make is that underpayments cause extreme hardship for people. They should be a priority, not the overpayments perhaps. That was all I was trying to get to, but it seems that the panel disagree.

Mr Duncan Smith: If I can just say, I do believe underpayments are a priority.

Mrs Emma Lewell-Buck: Well, make them a priority.

Mr Duncan Smith: They are a priority.

Mrs Emma Lewell-Buck: That is not what I have just heard.

Mr Duncan Smith: They are a priority. Two things are elements of underpayments: either official error or that the claimant has misunderstood what they are required to give as information. One example was the individual that we were referring to that was sitting in the food bank testing this process. They were saying when we spoke to them yesterday that one of the areas they have resolved is some of the times they come in and say, "I have not received a benefit," and then they go through and find that the health certificate was not produced. On the spot, they can give assurances that the health certificate is there in front of them, they will post it, but can they now make the payment? We are looking all the time for ways of short-circuiting that process. These things are on both sides of the fence. Sometimes they are official errors; sometimes they are errors of understanding. We are trying to simplify this complexity. The present system we have at the moment is unnecessarily complex. The processes we are going through to change to Universal Credit will simplify that dramatically.

Q42 Mrs Emma Lewell-Buck: If we are accepting that underpayments are a problem, why will you not introduce a target for them? The question is simple.

Mr Duncan Smith: Listen, I am very willing to have a look at all of that myself, but the point is I think they are internally—

Mike Driver: The targetry, though, is within our overall aim to reduce the monetary value of fraud and error, of which underpayments are a part.

Mr Duncan Smith: Absolutely.

Mike Driver: If I can just give you an example, if you take pension credit, the amount of overpayment through customary pension credit is about £110 million, which is almost exactly the same as underpayment.

Q43 Chair: They are different people though, are they not?

Mike Driver: No, I accept they are different people, but most of that error is driven by changes in income or failure to notify of income or us taking the wrong income into account. When we do work on pension credit to identify whether the cases are correct through the real-time information system, that identifies both under and overpayments. If we find an underpayment, we do not sit on our hands and not repay the amount, we correct the case and pay the amount.

Mrs Emma Lewell-Buck: I just wanted assurance that a target is going to be introduced. That is all I am asking. It seems like it is not going to be, so we will move on.

Q44 Chair: The Secretary of State said he will look at that, but given that real-time income is going to deal with so much of this, what is the shelf life of tax credits? When will you cease to be having people on tax credits?

Mr Duncan Smith: We already have people who once would have been on tax credits and are not.

Q45 Chair: No, but when are the doors going to shut finally on tax credits?

Robert Devereux: There are two senses in which you can answer that question. One is at the point at which in any geographical area we stop taking any new claims for tax credits, which will start to occur in May, when we start to roll this out piece by piece across the country; then there is the second one, which is when will all of the stock of tax credits that have not been anywhere near the flow themselves have been transitioned. That is what we answered earlier.

Q46 Chair: Robert, there will be no new claims, you are saying, for tax credits from when?

Robert Devereux: The answer is it will be rolled out across the country differently. We have not chosen the particular rollout path yet, but let us imagine it was your constituency we started in, then in May, if that was when we started it, we would be saying in that case that no new claims to JSA, ESA, income support, tax credits or housing benefit will be made in your constituency.

Q47 Chair: No, but when will the doors universally close for tax credits?

Robert Devereux: They will universally close when that rollout path has rolled across.

Chair: When do you estimate that—

Mr Duncan Smith: In 2018, around about June, no one will be claiming in the country any more new tax credit. You will go straight on to Universal Credit.

Q48 Chair: There will be no new claims anywhere in the country?

Mr Duncan Smith: No new claims.

Robert Devereux: There will be no new claims.

Mr Duncan Smith: Through that process, we then migrate the others back across who may have existing claims.

Q49 Mhairi Black: To start with, obviously before the referendum there was the vow that was made in the last week that the Prime Minister signed up to. In the spirit of that, Scotland was told it would get the powers as close to federalism as possible. I think it is also fair to say that in the general election the Conservative manifesto was rejected in Scotland. So with that in mind, and given that some of the welfare reforms that are coming through just now have been rejected by all the main political leaders in Scotland, including the Scottish Conservative leader, is there not then an argument to suggest that all of welfare should be devolved to Scotland, and if not, why?

Mr Duncan Smith: I think Ms Black will know that the agreement that was made at the time, post the referendum, was that we would stick by the Smith Commission recommendations. Those recommendations said that we should devolve further powers to Scotland in this field to control the disability benefit, which is PIP, and the employment benefit, and in that space all the other employment programmes, but in this particular case, the Work programme. Those were the two that were made. The Scottish Government already has the power, and this will be re-stressed again in the process of this devolution, and should the Scottish Government wish to make extra additional payments themselves, they can do that. There was also a change made to the control over discretionary housing payments as well—additional measures that will be passed across from Smith.

These are quite substantial changes, and devolved powers that will go to Scotland to already make changes far beyond anything they have at the moment. I guess the answer to this is: if it is perceived by the Scottish Government they would wish to make more payments, for which they would then raise the money, that power exists already and they are capable of doing it at the moment and will be able to do that separate to the existing UK-wide benefit system.

Q50 Mhairi Black: But with that in mind, 85% of welfare still remains reserved and 70% of power over taxations remain reserved. That is not as close to federalism as—

Mr Duncan Smith: I guess we are not going to agree about this, but all I am saying is that we were asked to implement Smith. This will be the outcome of this and we will wait for Lord Smith to make his own statement about this. I believe that what we will have delivered is Smith. We have made alterations and changes in the last few months to improve that position. I believe we have been reasonably flexible in all of this. I keep coming back to the simple point: any comment to the Scottish Government is they have already, and will have, significant powers. The question is: do they want to use them and when do they want to take them on board? My suggestion to them is: if there is something they disagree with in terms of the national benefit system, they still have the capability, if they wish, to create a parallel process themselves.

Q51 Mhairi Black: Following on from that, with the powers that you are talking about, is there an assurance that in the event that the Scottish Government feels a need to use these powers to top up any benefits, or if the Scottish Government is even able to realistically top up these benefits, is there an assurance that that money will lead to additional income for the individual or can it be taken off through Universal Credit in some other way? Is it just filling a gap and will money be then taken out of their pocket in another way?

Mr Duncan Smith: It is a matter for the Scottish Government as to what they do with regards to any payments they want to make separate to the existing benefit system. They will have to take into account the nature of the benefits that are already in existence UK-wide. But it is worth reminding everybody that Scottish Government will get something like £2.7 billion worth of devolved welfare, and that is a lot of welfare. We have had lots of discussions with Scottish Government officials, who are even now beginning to understand the scale. There is a significant scale of administration that is going to be required to be able to make those kind of benefits work in Scotland. I think it is reasonable, it is generous, and it is an operation that we will then continue to work closely with the Scottish Government to make sure that people in Scotland get the best service that they possibly can. It is not in any of our interests to have anybody in Scotland getting anything less than the best service that they can.

The reason why we have retained control of things like Universal Credit is because they work best on that basis. Bear in mind, all of the systems that we have in place have led to record employment levels in Scotland—record female employment in Scotland—and record participation in the labour market generally has been a big success story in Scotland. In fact, it can be argued that Scotland has a far better employment position now than many parts of England.

Q52 Mhairi Black: Just to clarify, if the Scottish Government uses the powers to top up any benefits that will lead to additional income for the recipient, then it will not be taken off in any other manner.

Mr Duncan Smith: That is a matter for the Scottish Government to take a view about themselves. I am not going to involve myself in what the Scottish Government decides to do. That is what devolution is about. They can make that decision themselves. The existing powers are there for them to do that, but it is a decision they have to take. We have to run the UK-wide benefit system so that people moving across the different boundaries of the United Kingdom can be assured at least that the base welfare system that they have is the same one wherever they go.

Q53 Chair: But are you saying, Secretary of State, given Scotland has the power to raise tax itself, if they wish to make good the proposed cuts in tax credits, could they use their tax-raising powers to raise the money to negate the cuts in tax credits?

Mr Duncan Smith: As I understand it, that is the case. What I am simply saying is we have already devolved significant powers: the disability benefit, the employment programmes will be devolved to Scotland, elements around discretionary housing payments and so on will be changed. It is quite a dramatic amount, £2.7 billion. Beyond that, the settlement is all about the ability of the Scottish Government to raise revenue to make decisions beyond that to do what they like. One of the areas that they can of course do—and it is the existing case, but it will be restated—is that, should they wish to set up some other payment beyond the UK-wide payment system in terms of support through benefits, then they are quite capable of doing that, but that money will have to be raised in Scotland. That is the principal position.

Robert Devereux: I think the question you are asking is: if more cash goes to somebody—and it would be automatically taken account of in the UK system and thus UK cost would go down—what would happen? The answer to that question is the Scottish Government needs to make a proposal of what they would like to do. The UK system is capable of deciding which things are or are not taken account of, and so I think the ball is with the Scottish Government to make a proposal. I understand the point you are making—

Mr Duncan Smith: But the political point is that it is first of all for the Scottish Government to decide what they want to do and then they can tell us what they want to do and we can discuss that with them. The main basic point here is that if they want to make a change in Scotland, then they raise the money themselves. It will not be part of the UK benefit system. That is the main point I make.

Q54 Chair: No, but tomorrow, Secretary of State, we have a debate on the changes in tax credits. The SNP have put an amendment down saying that the cuts should not take place. Are you saying that given they have tax-raising powers that they could, if they wish to, use those powers to ensure that the tax credit cuts did not operate in Scotland?

Mr Duncan Smith: My understanding of what we will be providing under Smith—which exists already here anyway, but as a restatement—is that, providing they raise the revenue, it is wholly within the power of the Scottish Government to add additional payments after the event; that is to say, after our UK-wide benefit system operates, they can decide what they would like to do. Should they wish to do something additional to that, they would have to raise that money themselves. It would not be money that would fall on the shoulders of the English, Welsh or Northern Irish.

Chair: One last point, Mhairi, and then we must move on.

Q55 Mhairi Black: But in order to do that, the Scottish Government would then have to come to yourselves or the DWP to talk about whether that would come—

Mr Duncan Smith: The Scottish Government would not have to come to us at any stage in that process.

Mhairi Black: But to ensure what Robert was talking about.

Mr Duncan Smith: Yes, I know, but the point I am going to make is they do not have to come to us. This power exists. They do not have to even communicate with us if they do not want to, but if the Scottish Government wanted to talk to us about it, then we would be happy to talk to them about it. But my point is that this power and this authority lies with the Scottish Government, so in the process of this, the question is: what will you do about taxation?

Q56 Richard Graham: Secretary of State, I would like to turn to pensions now. In the foreword to last year's annual report you rightly said, "We have seen the biggest shake-up in the pension system in a generation here in the last Parliament," so my questions today are going to be focused on progress and preparedness and implementation. But before doing that, with all of your help, I want to try to squeeze in a few more quick questions about the overall situation of pensions. One thing that would surprise, I suspect, many of our constituents is that total DWP expenditure over the last Parliament rose 11%, mainly as a result of a 22% increase in pensions, which went from £77 billion to £97 billion, or about 30% of the total. Can I just ask, what are

the main causes of that extra rise in pensions and to what extent has the triple lock contributed to that substantial increase?

Mr Duncan Smith: Can I just start and then I will get Robert to fill in some of the more detailed figures? We took a decision back in 2010—and that has been continued in the last election—that we sought to protect and improve pensioner incomes. It is worth remembering that pensioner incomes have fallen relative to national incomes over a long period of time. I remember when I was leader, I made the first statement that we would re-link those pensions and we were therefore—as a coalition and then subsequently as a Conservative Government—keen to link those pensions.

We then went slightly further. We have introduced a triple lock—Mr Graham knows very well how that works. That guarantees a minimum increase to pensioners, regardless of what is happening in the wider world with inflation. That has meant that we have seen pensioner poverty fall directly as a result of that. People say to me, “Why did you do that?” and my answer is very simple: that we forget that pensioners are in a slightly different category to many other people who are of a working age. They also are quite often unable to change their circumstances because they may have reached a point where they cannot work—that is not available to them—so therefore their income is locked and therefore that income that they get as a result of their pension, plus other investments, is a vital consideration to them. We have chosen to make that increase against its relative value in the wider economy, and that therefore is the key driving factor of why we have seen the cost of pensions rise. That is likely to be the case going forward. I do not know if my colleagues want to say anything more about specific costs in there.

Robert Devereux: There are two principal trends. One is the numbers of pensioners, which is a demographic question and a longevity question. The other is the relative rate of increase of the triple lock. I cannot remember off the top of my head which of those was the dominant factor, but what was the percentage increase you were quoting overall?

Q57 Richard Graham: The overall percentage increase was 22% during the last Parliament, but my question was what you were expecting for this Parliament in terms of the increase and whether you are budgeting for that to increase quite sharply as a result of earnings rising over the 2.5% flat figure and substantially over inflation.

Robert Devereux: The Government’s projections that will come out in the spending review include the latest projections of pensions and they are consistently updated. The only two trends that are essentially going on are how many pensions there are and what the relative inflation is.

Q58 Richard Graham: There is one other calculation, Permanent Secretary, which is: what will be the level at which the new state pension will be set?

Mr Duncan Smith: That has not been finally decided and agreed yet, but it will be. When we do, we will announce it. The plan is that it will of course be above the threshold.

Q59 Richard Graham: Secretary of State, in terms of your understanding of the Conservative manifesto commitment to retain the triple lock, is your understanding that the triple lock consists of a flat figure, earnings or inflation, the greater of the three, or that the figure for the flat rate is also cast in stone?

Mr Duncan Smith: I did not hear the last part of that, sorry.

Richard Graham: Within the triple lock we have 2.5%, earnings or inflation; the greater of the three is the figure used. You could define the triple lock as just being the principle of those three elements or you could define it as being both the principle of the three elements plus the figure of 2.5% cast in stone.

Mr Duncan Smith: I have seen it as the latter. The greater of the three is where we have been adjusting it.

Q60 Chair: The triple lock will apply to the new state pension, will it not?

Mr Duncan Smith: I have seen no indication to believe otherwise.

Q61 Chair: It will just add to your pressures about budget by the end of the Parliament?

Mr Duncan Smith: They are decisions, Mr Chairman, that Governments take about where their priorities are. This is considered a priority for the Government and I have seen no evidence to change that priority.

Q62 Richard Graham: Thank you very much, both of you. Let me move on, then, to the key ingredient of the biggest shake-up in a generation: auto-enrolment, which has been an outstanding success so far, although a number of us always felt the real test was going to come with the smaller companies. I think we have 1.6 million of them auto-enrolling, in theory, next April. What is your sense in the Department so far of how that process is going to go and are there any specific categories that give you concern? I am thinking in particular, for example, of almost unintentional employers, like elderly people who have a carer, or indeed with families who may not think of themselves as small corporates, employing perhaps a nanny or someone to help look after children.

Mr Duncan Smith: Let me just first of all explain what we are doing. First of all, I think it has been a success so far. We have had an advertising campaign that helped alert lots of companies—the bigger companies—to what they had to do, and that seemed to work. We have seen something in the order of 5 million enrolled by about 60,000 employers, so that is quite a success. But we all know that the main bulk of those employed in Britain are employed by smaller, medium and micro-companies, so that is the big challenge. Getting to them and getting that information across to them has been the big threshold. It is the reason why we delayed the rollout to these groups until, now, 2016, so that we can give them a chance to understand it.

Getting to them requires doing a number of different things. You will have noticed we launched a new national comms campaign and it is targeted at individuals and small companies. The website has been refreshed. There is now a step-by-step guide that has been launched, which we are going to try to ensure gets to everybody. One of the ways of doing that is to ensure, for example, that accountancy firms have this so that they can inform their clients. Everywhere we think small companies are likely to be, we are looking to see if we can the information to them so they can talk to each other, they can ensure that takes place. Simplifying some of those products for the smaller employers and staging small micro-employers—714,000, I suppose—bit by bit to come on board, so setting ourselves a target for how we stage to get groups and numbers across the threshold into the pensions thing and then making an evaluation of this. But it is not easy.

As you know, one of the big challenges right now when we get down to the micros, which is the point you are making, Mr Graham, is to get the information across to people who maybe

employ carer or, as I saw somebody raised the other day in the newspaper, a nanny, or to elderly people who have someone to care for them—those who have not seen themselves as an employer in quite the same way—that even those individuals employed by them need to have, eventually, provision for a pension, which is what the auto-enrolment process is about, and to get that information across and help with guidance to advise them how best they can do this, which benefits them both.

Q63 Richard Graham: This might be something, Chairman, that this Committee might want to look at in due course, but I am just interested in whether you think at the moment enough arrangements have been made with potential partners—I am thinking of the Federation of Small Businesses on the one hand and charities like Carers UK on the other—to make sure that they can help roll it out and spread the word among their own members.

Mr Duncan Smith: Yes. I am going to ask the Permanent Secretary to say a few words about the process of this, but I know that we have sat down and this is one of the areas we have thrashed out again and again and again. I personally keep asking the question: who do they know that we are not talking to? Who do they know that we need to present to? What are the organisations that ring around some of these companies, the charities themselves, and so on? We are constantly going through that process, literally on a daily basis.

Robert Devereux: I will just add one thing. We are not sitting here hoping that this will be straightforward, so we have gone out deliberately with a pathfinder arrangement and we have taken something like 30,000 or some such number of companies. They are all due to stage by the end of this month, so we are tracking their progress, and in that progress we are deliberately treating them slightly differently. Some people are getting phone calls to say, “Have you thought about doing this?” and other people are getting letters. Some people are getting this; some people are getting that. We are basically doing experiments to see which things land with this population of people.

In addition, we have agreed, as the Secretary of State said, to substantially simplify this, so that if you are a single employer of one individual you can simply go on the website and it will tell you, “Here are the five things to do. You do not need to go and ask yourself lots of difficult questions on what sort of pension scheme would be good for my carer, just use this one.” All those simplifications are in the system and we are testing them now. By the end of this month, which is only a few days away, we will have a much better sense of what are the mixtures of things that will work.

Q64 Richard Graham: One thing, and I think we have discussed it, is that if you look at the progress of the last Parliament—for example, on employment—large numbers of MPs were helping this process along by organising jobs fairs and so on. Some of us generated, effectively, templates as to how to run this, which colleagues were sharing. We had discussed whether something similar could be done, given our interest in having all our constituents auto-enrolled, and small employers making sure they do hit the target and helping to play a role in that. If the Department were to come up with a suggested model, I am sure members of this Select Committee in particular would be very interested in helping to try to streamline that.

Mr Duncan Smith: Can I say I think that is a really interesting idea? What I will undertake, Mr Chairman, is to go away and look at this idea. We are already asking MPs to set up Disability Confident local campaigns. This is a very good idea and I will take it away. We are open to any single suggestion of another way, or a better way, to help improve communications with those groups. This is not a closed process.

Q65 Craig Mackinlay: Just on auto-enrolment, I am grateful that there is some simplification and advice is going to be that much easier, particularly for the small employer. I have been very, very worried, because I was in practice and my practice ran hundreds of payrolls, and I am afraid the fear factor for the smaller employer out there is truly massive. There are employers saying, “I’m just going to get rid of my staff. I can’t be bothered with this.” I know that is often the default position when change happens, and after the event everyone goes, “It wasn’t so bad, was it?” **But I am extremely concerned by the fines regime that is in place for the smaller employer, and we could find a situation where small employers will have such a fines level. If it is draconically imposed, which I hope it will not be—but I know there is a balance between having to have a stick and a threat to use it—I just cannot help feeling we are in the moment now where the huge number of smaller employers are coming up to their dates. I think this is the time that we can do something different to help them through this.**

Mr Duncan Smith: I agree.

Q66 Craig Mackinlay: I personally think that DWP wants this and they should be administering this themselves through the national insurance system. That is my proposal. Do you have any thoughts on that?

Mr Duncan Smith: First of all, I fully accept that there is always a fear among the smaller companies. I have spoken to lots of groups through the Federation and so on, and invariably a lot of that fear is just a fear of the unknown. They have heard rumours about this stuff. It is not true, most of the stuff they hear. The first thing is we are trying to get to all of those organisations to set up meetings and make sure that there are ways in which we can get that information across. The advertising campaign we just launched the other day specifically addressed that, trying to get people to stop and say, “Look, this is happening. You need to go and ask if you are not sure about this and here are the places you can ask. Make a call, get on your e-mail or whatever. Just ask for information and we can talk to you about it.” The purpose of the campaign is to try to get people to stop and say, “I have to do something. I cannot bury my head in the sand, I have to do something about it.”

We are already engaged in discussions with HMRC, one of the organisations, about how can you use the existing systems to get information out to people about the need to comply with the auto-enrolment and then what are the possibilities there. All of this is part of the process. As I say, the new Pensions Minister has set herself the task of ensuring that this information is disseminated. As you know, she was not a politician. In a sense, she has come to this fresh and is very interested in this,

Q67 Richard Graham: Secretary of State, we hope very much the ‘Workie’ character is going to produce great results on this. On the other two aspects of the shake-up of the pension system, we have the Pensions freedoms and the Pension Wise guidance, which is moving over from the Treasury to your Department fairly shortly. I am not quite sure when exactly. Would you like to tell us when it is happening and what you expect to find and what thoughts you have on how effective it has been so far?

Mr Duncan Smith: I am very much in discussions with the Treasury about the timings on this, how this works and what comes with it, so there is a little bit of further detail on that to make sure that we understand exactly what they have been doing and also some of the policy areas around that. That is a matter that I will be in a better position to declare exactly what the timings are on that.

So far, the Pension Wise service has performed reasonably well, I think, in the sense that it has managed to address a number of calls. They have face-to-face guidance in over 500 locations and they have dealt with 20,000 people who have booked appointments. I gather the satisfaction levels are pretty good on all of that, they are running at over 90%.

Q68 Richard Graham: Yes, and you know that this Committee has done a report on that, where we broadly accepted that things were going well so far, but there was a lack of data. Of course there has been some media coverage of the way in which at least one Citizens Advice Bureau seems to have rather mishandled its resource. I think some of us have concerns about how Citizens Advice Pension Wise advisers are communicating that and marketing, if you like, spreading the word again about their service to our constituents. Again, at this stage, does the Department have a view on how that is working and the slightly different offer from Citizens Advice and the Pension Wise service?

Mr Duncan Smith: Yes. Part of this process is making ourselves an assessment about how this is working and, as and when we do engage in this, what changes we might want to make, if we do, and how we may improve the system. The one thing I will say about the DWP is we are basically a delivery Department—so what we do every day is engage with people, both face-to-face, telephony and so on, to deliver welfare benefit support advice and that kind of stuff. It is very much more what the DWP does, so we will want to bring to that certainly an understanding of ways in which, if at all possible, we can improve the process. That is part of the discussion at the moment. But I recognise that, as in all plans, they get tested at the first moment of contact—an old military analogy—but the reality is that is the case, and therefore we are going to pick up on what we think is working well and what is not working so well.

Q69 Richard Graham: I guess one aspect it does give you an option of considering is whether to use the Pensions Advisory Service perhaps more than the Citizens Advice Bureau to help with the business of auto-enrolment—that is, expanding the Pension Service—into individuals or micro-businesses, which may be one or two people, who you are trying to help auto-enrol.

Mr Duncan Smith: I would certainly take consideration of that. I would not want to make commitments at the moment, because we want to get the service right for the specific reality, which is that it is there, over the freedoms. But as I say, if subsequently it turns out to be a way, I am happy to look at that separately.

Q70 Richard Graham: If we could finish, Chairman, with one broader question, the whole environment of savings and pensions is changing very rapidly. Clearly there is a Treasury consultation out there at the moment. Pensions is one form of saving, but it is rather different in the structures that we have in this country. What concerns do you have about potential decisions being made by the Treasury that radically reform the incentives to save through pensions?

Mr Duncan Smith: It is very inviting in this Committee to make observations about the Treasury and the way they work. You will definitely forgive me, Mr Graham, if I do not accept your blandishments to discuss that with you. All I will simply say to you is that we are in constant contact with the Treasury. We are hugely engaged in the consultation process and we will, you can be assured, make very clear to them what our view is about what works and what does not work when it comes to the encouragement for people to save and prepare for their future. It has been a big driving force as part of the reforms, to get pensions on a more stable footing—to get more people saving, to get more people therefore able to benefit from a better income in retirement. That we will want to safeguard categorically throughout.

One of the areas that I have always been concerned about is how do you get younger people to save more in the early years. A lot of their problem is understanding that it is a long time to lock up some money, so one of the points I made a while back was to look at possibilities of saying there are ways in which you may be able to access that. These are things that we want to look at going forward. There are other such systems in other countries that we want to look at. There are things ahead that I want to look at in improving the ability of people to save. In fact, the Chairman, when he was last time Chairman of this, spent some time looking at pension saving as well and much of what he said at the time has come to fruition.

Q71 Richard Graham: I guess if there are extra flexibilities in there, that might also help some people who are getting into difficulties when they come into the benefit system, through not being able to access small pots of savings fast enough.

Mr Duncan Smith: That is why in a sense we want to look at the balance of all of this, how it affects people both in and out of work and also as they progress through work. That is the key bit for us and that is why we will have a very big input into this consultation that Mr Graham kindly referred to.

Q72 Craig Mackinlay: If I could continue the theme of pensions, and the new state pension at the one unified rate I think is a useful simplification. Are you happy that all groups are fully aware? We obviously will not know the figure that is going to be set up for April 2016, which is not that far away, and probably until the CSR. What do you think success will look like if we were to look at it about this time next year? What are you expecting the features to be?

Mr Duncan Smith: Success will be that people understand what is coming, they play that full part in understanding what they are expecting from it and that the information is out there and people act accordingly. Generally, the key point is we have started a comms campaign back in August to inform people what is happening. There was a bit of misinformation around about what they said originally would be in the obligations and what would happen instead. I think that is being rectified now. There has been a lot of discussion with various media outlets as well as the comms process to try to inform people about how that works. The single tier—I pay tribute to my previous colleague, Steve Webb, who I worked very closely with on this—will ultimately put a reasonable floor under people's savings and allow them to save and have that saving above the line rather than being means-tested away, as it has too often been in the past.

Q73 Chair: It does affect our views, does it not, about tax concessions for savings. In the past, that system was built up because we never believed we would reach a stage where we would have a universal state pension that took in largely of means tests, so the conversation that Richard began in the longer term is a very important one, is it not? We must not forget this innovation when looking at the tax concessions for savings for pensions.

Mr Duncan Smith: There is no question: it does radically change the environment for how people save and what you consider to be a legitimate saving now towards that process. I think that opens the whole possibility of being more flexible in that, but that is a matter I suspect I will have to discuss with the Treasury.

Q74 Craig Williams: Can I take us back to benefits? You touched earlier on about mandatory reconsiderations and we took a lot of advice both anecdotally from our own caseloads, but in the benefit inquiry we did in written and oral evidence, about the delays and the waiting times for mandatory reconsiderations. Could I specifically ask whether you will consider introducing a target for clearing mandatory reconsiderations? We had some specific examples of over six months.

Mr Duncan Smith: The figures that I have are that the mandatory reconsideration process, which we instigated as a way of dealing with any issues or mistakes before needing to go to some kind of slightly longer appeal process, at the moment we think this is improving and it has been improving dramatically for some time. The figure is that 95% are currently being cleared within 10 working days, which is a big improvement even on 12 months ago, and some 75% of the applications are cleared now. That was an improvement on what was going on before, so 95% now are cleared within 10 days, which is the key area, I think, and the average clearance time for ESA has also improved quite dramatically as well. We are already driving that to improve.

The trial that I announced when I wrote to the Chairman about us looking to have this two-week period before the sanction is imposed, I suspect and believe that will have a big bearing then on the mandatory consideration process, because in a sense you are bringing it forward of the event rather than after the event. I think that will help also improve perhaps leaving mandatory reconsideration with the more difficult cases, so you will see this upfront process improve that as well.

Q75 Craig Mackinlay: You are comfortable that it is being ironed out in terms of the process and you think a target then would be counterproductive? I think you are describing you would easily meet it?

Mr Duncan Smith: It is a priority for us, we have said that and we intend to drive this up until the point it cannot be improved any longer, but my general view is we have already demonstrated that is the case. The figures I gave you now show that, and I still think there are improvements we can make to it even beyond that. That is what I have said is a priority to the Permanent Secretary that we want to consider. It is very important that we get this working swiftly, efficiently and that people get a result very quickly. In fact, it has led to a big fall-off in appeals anyway, so it is having a beneficial effect because it is resolving those matters. As I say, the trial that we made I think will help add a dimension to that, which may improve that even further.

Chair: Steve, welcome to this Committee. It is now over to you.

Q76 Steve McCabe: Thank you. Good morning, Secretary of State. I want to ask about personal independence payments. In June, obviously the High Court ruled that delays of nine months in paying personal independence payments to disabled people was unlawful. Can I ask: what have you learned from that? Are you a reformed character as a result of that?

Mr Duncan Smith: The question is really “Is the benefit in a process of perpetual improvement and reform?”, and I think the answer to that is yes. It is worth bearing in mind that the court found certainly in our favour on two out of the rulings—on human rights not having been breached—but more importantly than that is: what are we doing about improving the situation? I think this is the whole point that the figures now bear out. The average wait for new claims is down two-thirds since June last year. It is now only five weeks; it was 29 weeks at the time. Reassessment claimant waits are only four weeks. The standard new claims are nearly 50% or 49% successful. The standard DLA reassessment is 76% successful and terminal illness is 100% successful, obviously excluding withdrawn cases.

There have been dramatic improvements. We put a huge amount of effort in. I drove that very hard with the Permanent Secretary to get that absolutely where it should be and I believe that is the case now, so in a sense we have stuck to that. We have gone past where I originally said, 16 weeks, and it is down now at five weeks. I think it may be borne out by the fact that

we are not seeing anything like the level of questions coming in now from Members of Parliament about delays and waits because we have a much better process in place. Of course we would have wanted that to have been the case, but we have put in the effort to do that now and I hope that has borne fruit.

Q77 Steve McCabe: Would it be reasonable to assume that if, as a constituent MP, we are coming across cases that seemed to be taking routinely more than five or six weeks, then we should be raising that with you directly? That is out of step with what you are telling the Committee.

Mr Duncan Smith: Exactly right, yes. I would encourage you. I would not just say you should, I would encourage anybody to do that, because I now believe these are exceptional cases, where they happen, and they are unacceptable. I state that they are unacceptable in every regard. I made that very clear over a year ago, which is why now the figures are so dramatically different and improved, but I consider that we need to make sure that is the case constantly. We are not going to let that slip, and I have made that very clear to both the officials and they in turn to the contractors.

Q78 Steve McCabe: I am grateful to you for that. Can you tell me about the change from DLA to personal independence payments, particularly for those people who did qualify for DLA and are now being found ineligible for personal independence payments? Are you doing some work on that? What is the difference in the characteristics of these people who were eligible at one point and not eligible now?

Mr Duncan Smith: Mr McCabe, that is a wholly legitimate question, but the point is right now we have only just started that process within PIP, so it is the ones that have been originally on DLA are now coming through. We are starting that in three phases of the rollout of that group. We are not in the position immediately at this point to be able to break down those characteristics, but we will be doing so and we will be very happy to ensure that those kind of characteristics are available for the Committee and for you and for individual MPs in due course as soon as we have done it. But it is just too early for us to be able to say that; we have only started that this year.

Q79 Steve McCabe: Do you have a timescale in mind when you might be able to give a bit more? People are obviously very curious about the motive.

Mr Duncan Smith: Absolutely right, I accept that. I cannot give you an exact timescale, but I am hoping certainly by early next year.

Robert Devereux: These will have to pass proper statistical and quality checks. The Secretary of State is, in some senses, in the hands of the professionals to say, “Look, I have enough data. I can see there is a reliable set of information here and I can do something about it.” It is not as though we have a random choice one morning with the Secretary of State. We are already publishing information, of a fairly limited variety—like the numbers of awards, the gender, the geography; things that you can quite easily get right—but your deeper question of what is going on, what sorts of things are happening, you obviously need rather more data to be able to produce something reliable. What we have committed to do is that as soon as there are statistics of good enough quality to pass a test of being a decent statistic, we will publish them.

Q80 Steve McCabe: I think that would be very helpful. Can I just ask one last point, Chairman, on the issue of the 20-metre rule? That has obviously caught a lot of people. It has been the subject of an appeal—a court case—as well. Are there any plans to look again at the 20-

metre rule? That has been interpreted as a deliberate attempt to save money and it has obviously had a huge knock-on effect for those who have mobility vehicles. You must be aware of the concern around that. Are there any plans to look at the application of that rule or are you content with the current situation?

Mr Duncan Smith: Is one ever content with any of this as it stands? The answer is never permanently. We always want to keep it under review. We originally consulted on this, bear in mind. This was always part of the original consultation that we went out to do.

Q81 Steve McCabe: Yes, but the consultation led to a High Court case, did it not?

Mr Duncan Smith: Yes, procedural, but we had full consultation, which the court accepted. Moving beyond the procedure, we did consult about this idea and we think that it still adds a value to the ability to be able to define capability. After all, this is about “What capability in terms of mobility or care”—in this case, mobility—“are you eligible for?”

There were lots of criticisms of DLA before, where it was too open, and I think many on both sides of the House made that point. So far we will want to complete this, but I make only the simple principle that all of these things are under constant review all the time. If we think at some stage it is counterproductive, we will of course make that very clear, but I do not see any evidence of that at the moment.

Q82 Craig Mackinlay: In the DWP accounts, it mentions there are 1.5 million work capability assessments still outstanding. What sort of progress is being made on that and are you quite happy that Maximus, the new supplier doing these assessments, will be able to keep up with demand and get the work through the door at a reasonable rate?

Mr Duncan Smith: Yes, I am. One of the reasons why is that, as you may know, we inherited a contract that, like everything else five years in, if I had the knowledge then that I have now, I would have taken a much stronger view of right at that stage. In my personal view, the original contract was badly written. It was badly set: it was set at a level that was too low and that led to lots of problems as a result and retention of the people doing this and the quality was not good enough. All those things became apparent to us, which is why we brought the contract to an end early and brought in a new contractor with a better contract.

We have been much closer. One of the things that I have sat down with the Permanent Secretary and driven hard now internally in the Department is that this idea that because it is a private contractor, somehow they will just get on and do what they do because they are driven by the profit motive is, I am afraid—coming from the private sector—a thing that I said just simply does not happen. There are plenty of badly run, badly administered private companies, as much as there are difficulties in Departments. The thing that we have done through the second contract is to have a much closer relationship with the Department officials and the provider to know much quicker and much earlier where they hit problems and have a much more open debate and discussion on how they can rectify those.

That is now reaping rewards, I think, in terms of Maximus’s understanding of the new contract, their retention levels and also their throughput and the quality—and this is the big bit—of what they are doing. In essence, I believe their plan is a good plan. As you know, the OBR downgraded the plan itself in their original projections. I believe it will be better than that, and that is where we are proceeding to try to catch up with all of that, which is what we should have done. We should never have got into that position.

Q83 Craig Mackinlay: To physically have 15 Wembley stadiums seems a lot of people to try to get through the system.

Mr Duncan Smith: It is. You might want to make a comment about this.

Mike Driver: I meet with the board members of Maximus healthcare quite regularly. First of all, they are very committed to delivering the service that we require. Secondly, they do have a good plan. They have been recruiting healthcare professionals. They have brought in high quality management to support this process and make it work. In terms of the arrears, the arrears are reducing every week, in actual fact; so the arrears figure that you quoted is probably nearer to 600,000 now and is reducing by between 7,000 and 10,000 cases per week. We are confident that they will over-achieve the amounts of work over and above the forecast that was set at the last statement.

Q84 Richard Graham: Just to come in very briefly on that, one of the things that did change, I think, the speed at which the previous contractor was handling problem cases was the setting up of an MPs' hotline. That made a significant difference and it is making a difference on this one. But what we have discovered is that referral agencies like the CAB do not have standard agreed times at which they refer problem cases that are dragging on to MPs' offices. If the Department could help encourage the CAB at a national level to set up systems so that where they have a case where physical assessments, results and so on are very slow and behind their normal delivery times, then they should be referring those cases into MPs' offices so that we can take advantage of the MPs' hotline to resolve some of these problems faster. Do you think that would be something that would help?

Robert Devereux: We have just quoted you the numbers about our throughputs and monitoring. We know all these cases, because they are on our books, how long they are taking. I do not mind—

Q85 Chair: Could you take this idea away with you and maybe come back to us?

Robert Devereux: Yes, I can take it away. I am just pausing on whether I already know the answer to the question on who has delayed, and therefore you should be asking us to get on with it as opposed to suggesting a separate thing.

Chair: All right, very good. Karen.

Q86 Ms Karen Buck: On the work capability assessment, the North London Coroner was very critical of the work capability process in his report on the death of Michael O'Sullivan. That of course was not an isolated case; I think it was 2,300 people have died, having been found fit for work after their work capability assessments. Does that tell you that we need to be looking again at the accuracy and rigour of the work capability assessments?

Mr Duncan Smith: The first thing is we have been doing just that. The system that I inherited back in 2010 was, compared to today, staggeringly harsh. We have had five reviews now, I think, and we have accepted pretty much every recommendation to make modifications and changes to that. One of the areas that we made a big change to early on was in mental health. There was little or no provision to be able to understand variations in mental health in the original work capability assessment. Through the advice at that stage, after that first and second review, we introduced this time-lapse period; we introduced references to medical records in existence. I think we have much improved that process and we are obligated to continue to make those reviews.

I think you referred to some of the mortality statistics slightly there.

Ms Karen Buck: I was going to ask about this.

Mr Duncan Smith: I was only going to say, on the mortality statistics, it is quite wrong to extrapolate from any of those any particular cause and effect in this one, because they were not done like that. For example, you can see that by and large those people that are in a similar condition, but not involved in WCA, the mortality rates are very similar to those who go through the WCA. The point I am simply making is this is not an easy area; it is never going to be. When the last Labour Government set this up, they recognised that. We have continued with this process and I hope modified it, but we are constantly in the position of looking again at the systems under any recommendations, but also internally to try to see if there are ways we can improve the process.

Q87 Ms Karen Buck: I completely accept that standardised mortality figures would indicate that a certain number of people are going to die in that time period anyway, but when you refer to the harshness of the system in 2010, are we able to get any time series sense of those figures and how they might have compared to the tests in previous years?

Mr Duncan Smith: In what sense, sorry?

Ms Karen Buck: In terms of understanding the number of people who are dying after having been found fit for work.

Mr Duncan Smith: It is a difficult point. We have never collated figures specifically. It is almost impossible for us to do that, because we would have to make all sorts of judgments about cause and effect, so it is very difficult. What we undertook to do is to publish overall statistics about mortality both in the benefits system and out. The point I am simply making to you is that the best way to look at these is to deal with them as individual cases: do they throw up issues about the process and about the nature and quality of the assessment? The first thing is we have improved the assessment quality. I think that the point about a new provider has definitely improved that quality. We have seen some of that in the reaction to the tests and to the way they are being administered and to the localities, the locations and the nature of access and things like that, that has improved, but we continue to constantly look to see whether or not there is anything we can do to improve that even further.

Q88 Ms Karen Buck: In particular on that, are there ways being considered by the Department at the moment of shifting further away from it simply being a physical capacity test to something that is much more responsive to an individual's ability to work? The physical capacity only tells you so much.

Mr Duncan Smith: Yes, but as I said, we introduced a whole series of changes that improved our ability to assess mental capacity and incapacity early on and that is constantly under review. That was not there originally in quite the quality, so that is an improvement.

Q89 Ms Karen Buck: But you do not see that going any further is what I am saying.

Mr Duncan Smith: Yes, I do. This is the constant process of reappraisal. Can I also say that during the summer I spoke about one of the big problems in all of this, which I have looked at in the last four years and decided I would like to make a change. I made that very clear, which is that there is a fundamental problem at the heart of this benefit itself, which is this binary choice that you have to be too sick to work or you can work. This is the review that I have now announced out. I think this is at the heart of the problem, which is a nature that says all or nothing. It does not allow for sometimes the nature that some people—

Q90 Ms Karen Buck: That has been the Holy Grail for decades, has it not: a partial capacity test?

Mr Duncan Smith: Yes, so what I want to do is to look at whether or not it is feasible for us to change it. I hope we would have some interchange with the Committee on that, because I think it would be a positive change to make.

Q91 Ms Karen Buck: Just a last question. On the review of the incapacity benefit clients, are the results of that, as they are ongoing, in line with what you would have expected?

Mr Duncan Smith: In the sense of—?

Ms Karen Buck: In terms of how many of those people are fit for work and how many of those people would go on to ESA.

Mr Duncan Smith: I will be honest with you: against the original projections, the answer is no. The original projections had significant numbers of people—according to the last Labour Government's projections—being assessed and going back to work. That has clearly not been the case. Some of that may be to the fact that we have made the assessment itself far more practical, far less harsh and more helpful, in a sense. But also I think it comes back to the heart of this issue that I just mentioned: that there is something fundamentally wrong with the binary choice that lies behind this. It makes it very difficult to get people to do some work. We have had surveys of those in the work-related activity group and over 60% expressed their desire to do some work, but it is very difficult to get them to do any work under the present system. Even in the support group, 50% said they would like to be able to do some work, but of course they are fearful that if they do any work they lose their benefit and this is where the problem comes in.

Q92 Ms Karen Buck: Absolutely. Could you just remind us factually—or if you cannot do this, maybe just write to the Committee, if that is okay—how the current status of the IB assessments match up against what the original expectations might be?

Mr Duncan Smith: The original expectations? I am very happy to. I have said it before: I hesitate just to guess off the top of my head, but I am very happy to write the note. I have said it in the past in the House and things like that.

Chair: Very good, thank you. Heidi.

Q93 Heidi Allen: Gosh, I thought my moment would never come. I am interested principally in the Work programme and I will be as fast as I can. Broadly, it worked brilliantly. However, there is a big chunk of people that go through the Work programme that still come out without employment at the end—around about 70%. In your view, who are those people and what is going to change to help those people as we move forward into new Work programme contracts?

Mr Duncan Smith: The first thing I want to say is that the Work programme, as far as I can see at the moment—and have seen throughout this process—it is the most successful programme of its type now since we have been in this area of helping the longer-term unemployed into work. It also, as the Committee itself accepted, has a much better cost level to it. It is much cheaper to run than anything else because of the payment by results. It has improved dramatically as we have understood better how to run it, so the later cohorts have had massive success levels compared to this—well over 40%. I think the figures that the Committee was looking at before are lower than the reality. The reality is that over 40% are going through to work. Once they are through, they are not abandoned; they go back into the

jobcentres and we have a series of programmes that are aimed at intensive support and work with them to then deal with some of their existing problems that may not have been picked up or covered by the Work programme. That happens less and less now, but that is very much the case and that in itself is having some success in getting people back to work.

I have also initiated another process. We want to look at people before they get to the Work programme to understand some who may have problems that have been overlooked, that maybe they should not be in this process. Sometimes you get people through the Work programme that should have been dealt with on the basis of incapacity in one degree or another, maybe they should have been on a different benefit. I want to assess that, so some of those figures are not distorted by people not being in the right position to be able to be properly helped and assisted by the Work programme. Those figures that stand show that this is improving. We are looking for the next level of this, which is the Work programme plus the improvements to make that even better.

Q94 Heidi Allen: How does that fit with this brave new world of Universal Credit, because it strikes me that the whole world needs to change? You have talked an awful lot about this role of a person in a jobcentre being more of a work coach, now a mentor. I have always been a firm believer in personal intervention—getting to those people, being their peer, being their adviser that they have never had in life and that is perhaps why they are how they are. To me there is a revolution brewing there, so how is the world of the jobcentre and the Work programme going to change?

Mr Duncan Smith: It is. I will say that the Universal Credit, because of the nature of the persistent involvement of a work adviser now—a work coach rather than a jobs adviser—all the way up through the hours will allow people, rather than fall out of work and then stay out of work, to be involved and engaged with these people on a constant basis. I think this will have a big impact on people that too often in the past were written off and then parked elsewhere, which the Work programme has had to pick up. Some of the early cohorts going through were often filled with people who had been out of work for some considerable time—we are talking years rather than months. That is now falling away as we see more long-term unemployed go back to work.

As Universal Credit comes in, we are already seeing that is having an effect. We already know the dynamic effect, which the Treasury up until this point has never accepted or calculated. We are doing work on that with RFS-approved programmes and we are already seeing now that the effect is that people are going back into work faster, they are staying in work longer and they earn more money in work. That already now becomes an incentive for people who had difficulties as they approached the labour market. I think Universal Credit will have a big bearing on how many long-term unemployed there are as we go forward into the future, so the Work programme will have to accommodate that and we will be looking to make changes to that in the present system.

Q95 Heidi Allen: Can you give us a sense of how that Work programme might change? I had lots of questions I am not going to have time for, around some of the hardest-to-help groups. Bridging the disability gap has not been as successful as perhaps we might have hoped. It was making good progress, but is that where the Work programme needs to focus going forward?

Mr Duncan Smith: The answer to that is very simple. As we go forward, we now have a higher proportion of the population in work than at any time before. We see that there are 740,000 vacancies in the jobcentres every week. When we look at all of that, if you do the

maths, you can see that as the numbers of long-term unemployed have fallen quite dramatically, the numbers of unemployed have fallen, the numbers of the claimant count has fallen, although there are more people coming back into work, often who were not originally in the claimant count, so there is still that group coming through.

The reality is that the area that is still now in need—Ms Buck was on to this point and the Chairman has in the past—is the issue around sickness and disability. We have pledged to halve the gap between those with disabilities and those without in work. To do that, we will have to make some changes, and this is where the Work programme element of it will be making further changes and further assessments. I will say one thing though about it. It is the first time that anyone has made a comprehensive attempt to help people with disabilities and who are coming out of the long-term sickness benefit to get back into work. I think it is more successful than anything before. Is that good enough? The answer is no, it has to make further improvements, and that process I believe will improve.

It is already improving, mostly because people in the Work programme and the organisations that are involved in running it understand better now what it takes. Where in the past they might have parked people for a while, the answer is that is not acceptable and we need to work with them closely. This is the whole process of change that we are undertaking, the details of which I cannot give you at the moment, but this is very much what is being assessed on the basis of where we are already.

Q96 Jeremy Quin: Secretary of State, you gave a very full answer at the outset on Universal Credit and its implementation, for which I am grateful. I suspect this is probably more aimed therefore at the Permanent Secretary. **The NAO talked about having contingency arrangements in case the Universal Credit programme did not roll out to expectations.** Is that something that you have needed to look at or do I take it from the Secretary of State's answer that you have a great deal of confidence that UC will perform well?

Mr Duncan Smith: Can I just pick this up and then you might want to add to this? I am going to head this one off slightly. When I stopped the programme as it was originally going to roll out and reset it, it was on that simple basis that what I said was that we had too many moving parts in this programme, so that required us to undertake a new way of rolling out the programme. This is the “test and learn” process that we are going through at the moment—so you roll out a section of it, and you test the processes and you test the interfaces with local government, with individuals. You see what it looks like once real people hit the system and what does not work as you thought, you make the changes necessary and then you expand it.

That process is in fact an inbuilt contingency, in the sense that we do not rush to roll it out. If there is a problem, we resolve the problem before going to the next level, and that is very much the process that is engaged. I think the NAO would accept that now is proving that it works and it is the right way to roll it out. Quite frankly, I think it will be the way that almost every Government programme in the future should roll out. Gone will be the days of everyone in a darkened room working around to figure out what they are going to roll out and then hitting the button on day 10, because that is what the political desire was, and what happened to tax credits, which was: “Crash!”—everyone trying to fix it after the event. This will roll out on that basis, so that as people enter it, we can see what the problems are and we alter those immediately.

When you get the chance to see the digital programme, you will see that, as we have rolled it out, we have made genuine changes to the process, because that is what people have basically said to us—“This doesn't work; that works”, “This is easy; that's not easy”—and then internally people say, “We can improve the system.” That is what is happening all the time, so I

think that the process itself is the contingency. We have a break in there that allows us to pause, and I make no apologies for this: if there is a problem, I will pause that process—wait until we resolve the problem before we move on. We are not going to go to artificial targets, but so far what we have seen is that it is rolling out exactly in accordance to plan, because that system is allowing us to understand what changes need to be made.

Q97 Chair: The other big idea you brought into the Department, Iain, is your Life Chances strategy. How do you see that affecting the lives of the poorest in our constituencies? How is it going to affect the shape of your Department?

Mr Duncan Smith: The Life Chances strategy I brought in, and I said I would take account very much of your concerns about early intervention—that is a matter we are discussing with the Department for Education on how that can be best considered. It has been my view all along that the Life Chances area—it is something that you have been on for some time as well—is a more credible way of understanding what is happening to those families and what therefore needs to happen to them if they are to improve their situation. Bear in mind that I am also the chairman of the Cabinet Committee and the social justice committee, to which this all comes. All the other Cabinet Ministers report to that committee on the Life Chances, so we are working with all of them to define that process better.

I think it will change dramatically because it will eventually drive policy decisions in a way that they have never been driven before. The idea is that we will have to account for the variation in that and therefore what policies we can take account of and what policies simply do not have a bearing on that, particularly in education. Did the pupil premium improve the outcomes for children—that they are likely to see their chances in education improve—or not? Can we measure that? How will we measure that? What improvement has that seen in there as well? That will have a huge bearing on policy decision making, I think.

Q98 Chair: The body driving this is your committee on social justice?

Mr Duncan Smith: Answerable obviously to the Prime Minister at the end, but definitely that, and that has the attendance of all the other Cabinet Ministers and their Departments as well. As we go forward with the plans for this, that will be the forum by which we drive that co-operation between different ministries, which, as you know from Government, is basically the way you get things to work in Government.

Q99 Chair: We might ask you back to devote a whole session to that at some stage in the future.

Mr Duncan Smith: I would be very happy to. I will indicate to you when we are in a position to be able to give you much fuller information about the Life Chances details.

Chair: Iain, Robert and Mike, thank you very much for your time.

Mr Duncan Smith: Pleasure, thank you.