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Rt Hon Frank Field MP

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Jan Frank,

At the recent Committee hearing on 24 April, I promised to write setting out some of the policy and operational issues that would need to be resolved before a default Universal Credit (UC) split payment to couples policy could be implemented.

I should point out at the outset that I have some experience of dealing with domestic violence. As Deputy Mayor for policing in London, I devised and executed the first ever Violence against Women and Girls Strategy in the country, and the first in any major global city. Domestic violence was a key part of this strategy and our work was commended by the UN. So I share the concern of the Committee that my department should do what it can to confront this societal evil. It is in that context that I write.

As advised last week, Universal Credit has existing provision to handle requests for split payments between members of a couple. Split payments are considered when a member of a couple states that there is financial mismanagement and/or financial abuse or there are domestic violence issues, or in instances where the claimant cannot or will not budget for their own or their family's basic day to day needs. If a split payment is to be made, we would also consider payment of housing costs direct to the landlord, where there is a rental liability.

Single monthly payment

Perhaps I might start by reiterating a point I made at the hearing. There is a misconception that Universal Credit has elements it does not. UC is not an umbrella concept within which the six benefits and tax credits fall under; it is a unitary concept. Whilst there are different elements in the determination of a gross entitlement, UC is paid as one single payment whereby income is assessed against the total.

By calculating UC in this way, we avoid the need for setting out complex rules and setting a priority order for rendering reductions in net entitlement with regard to earnings and income. This is a fundamental building block in the design of UC. It is not possible to untangle all of that design to construct a split payment policy as outlined by some Committee members 'based on elements'.

So whilst you could, for someone on full UC with no other income, approximate what portion of the determination is in respect of a child, it has no independent legislative basis. This is because we need to account for the fact that 40-50% of people on UC will have some income or earnings. These claimants will not be in receipt of their 'full' UC or more precisely, will not have 100% of their gross entitlement.

The consequence is that we cannot reverse the calculation of entitlement to pay different elements to different people. So for example, in instances where a managed payment to a landlord is necessary, we do not pay a 'housing element' but pay housing costs direct to landlords. Therefore, as we explained to the Committee last week, the policy on splitting payments has to divide entitlement as a percentage and not by the idea of elements, such as 'money for children'.

As mentioned above, the Committee will be aware that 40-50% of people on UC have earnings and income which can vary and that variance is reflected in the household UC award. So the actions (income and earnings) of one partner can influence the level of UC for the household. Therefore, in a split payment scenario, it will impact the level of UC paid to both members of a couple. Fluctuation and movement in the level of award are bound to provoke contact with the system by one or both members of a couple to ascertain why money has changed. This is all at a cost to the public purse, as well as introducing complexity back into the system. This is before we consider the additional difficulties split payments will create for households in budgeting when income varies.

Deciding the relative proportions of benefit in a split payment

In terms of design, the first complexity in considering an automatic split payment system is how to decide the proportions of the split. If it is not possible to have a one size fits all approach, we would need to make a decision on a case by case basis and split the payment according to the circumstances of the couple, as per the current process. This approach does not lend itself to an automated solution.

Whilst a 50:50 split might appear the most obvious way to automatically split payment, it risks creating unfairness and giving rise to challenges in some cases. For example, if a member of a couple is disabled and receives extra money as they have 'limited capability for work', would it be appropriate to split the full determination 50:50? If one member of a couple is a carer or has responsibility for paying childcare costs, it would be difficult to apply a 50:50 rationale for splitting the payment. Should we take account of who pays the rent or do we need to consider a managed payment to the landlord in each case? These are all current considerations but in a 'split payment default position', this would present a number of other administrative challenges without automation in place.

Also, splitting payment in this way might encourage some individuals to consider the payment as 'my 50%' or 'my money' and therefore, might not look collectively at bills that need to be managed as a household. It may also prevent them reaching out to their partner for financial support to pay some bills, which in turn might increase financial stress not lessen it.

In some scenarios, we might decide another ratio might be more appropriate, for example, 60:40 or 80:20 with the higher proportion going to the main carer where there are children involved. However, this would assume that we have agreement on who the main carer is as we would need to be careful that we are not introducing discrimination into the system by assuming that it is the mother. Also, for a number of families, this might mean that money that had previously been directed to the whole family, may now be reduced by for example, 20% - with that 20% being treated as 'pocket money' by the individual in receipt.

These high level examples demonstrate that in introducing split payments as a 'choice', we would be introducing at scale complexity into the system and that this can lead to further complications and issues, all of which will have an impact on how the household manages their finances. Therefore, depending on the ratio and the underlying purpose of the split, there are serious issues to address.

Access to bank accounts

Any change to payment policies have to consider whether households are structured financially to allow this to happen. The Committee will already be aware of the amount of work invested by the Department to move individuals towards bank accounts as a default payment method. This requires one member of a couple to have a bank account. For split payments to be made, both members of a couple would need to have a bank account and we would cease use of payments into joint accounts. Our internal data in 2016 tells us that almost a fifth of couples had their payment made into one joint account. If splitting payments is to be made mandatory, it is likely that these couples, as well as couples with one bank account only in one name, will need time to establish separate bank accounts and work out how to accommodate any current financial commitments such as direct debits and standing orders for bills such as gas, electricity and water.

It is also important to note that in the past, the banks have shown a marked reluctance to open accounts for people on benefits. Therefore, this policy may require a significant expansion of the number of accounts with negotiation and consultation with the banking sector. It is not reasonable to expect all couples to have two bank accounts in order to receive UC and it is currently not a condition of entitlement. This would be placing additional burdens on claimants.

Before considering a change to the split payment policy, the Department would need assurance that there was near full coverage of bank accounts across couples. Anything less than near coverage would slow down payment to individuals and create an administrative burden to the Department. We are not underestimating this task to drive up the availability and use of bank accounts. We know that according to the Financial Inclusion Annual Monitoring Report in 2017, there are around 1.5 million unbanked adults in the UK and that of these, the majority are on a low income, including on benefits. It is a fair assumption that this is the group we will need to encourage to take up a bank account to support any change in policy. This would require a great deal of preparatory work with individuals to ensure that split payments can be easily adopted.

Claimants with complex needs

Another issue that may arise from the automatic splitting of payments is that some households will still require a single monthly payment. This could be due to one partner being unable to manage their money due to complex vulnerabilities, such as lacking the mental capacity to manage their own affairs. In this instance, they would be better served by one monthly payment. Moving to split payments would place those individuals at a disadvantage and cause them distress.

IT and operational implications

The task of building a payment system, or indeed making changes to a payment system, is not without its challenges too. The concept of a single payment to a household sits at the centre of the UC system, where the heart is the payment engine, which calculates entitlements. Opening this part of the system up to make changes will come at considerable risk. As we have recently seen with Trustee Savings Bank (TSB), it is hard to make fundamental changes to IT systems which are simultaneously running in live. Introducing a default split payment policy would be a fundamental change to the core design and code of our systems.

The worst outcome for all would be that we introduce a system that requires a high level of individual processing for each split payment, either through requiring decision-makers to make determinations about the levels of splitting or one that offered a wide range of choice. There would be a costly requirement to gather information and evidence to determine the proportion of the split, it would give more scope for reconsiderations and appeals and it would lessen the focus of work as an outcome as energies are expended by the DWP and claimants in resolving issues that may arise. All of these complexities would need to be reflected in the code of the system and guidance to staff. In turn, this would increase the scope for incorrectness and confusion to occur during all stages of the process.

Therefore, in introducing a system that splits payments automatically, we would have to proceed with the utmost caution, testing carefully so we could try to ensure there were not unforeseen consequences which disrupted the flow of payments. This could be catastrophic as there would be no alternative way to pay what will be millions of claimants by the time of implementation.

Scotland and Split Payments

Any changes to the Split Payment Policy raises some tricky legal questions, in particular in respect of Scotland where powers to make regulations to split payments have been devolved. Within the Claims and Payments regulations underpinning UC split payments, the Secretary of State (UK Government) can determine that a payment is split between a couple in such a proportion as appropriate. I am sure that a pragmatic arrangement could be reached between the Scottish Government and the UK Government. However, this is sensitive territory. The Scottish Parliament will be keen to guard its powers and competences quite robustly.

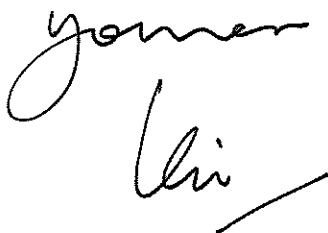
It is clear that a change to our split payment policy is not without risk to the payment system, particularly risk of disrupting core service stability. In our early exploratory talks at official level with the Scottish Government, my officials have been making

this clear. Delivering a default split payment policy cannot be done safely at pace operationally. The risks are simply too great and not just to payments in Scotland, but across the UK, given the system supports claimants across the whole of the UK. We will also be speaking to the Scottish Government about how they might plan to raise bank account coverage to all of the adult population of Scotland and the timescales for this work as a necessary precursor for implementing a split payment system.

As I said to the Committee I remain open-minded on this issue. Over the next few years as the Scottish Government designs, and we subsequently implement, such a split payment policy, we will have the information to judge whether the merits of such a policy outweigh the considerable downsides, considering the complexity of the system against a household being able to manage their household finances. The two Governments, UK and Scottish Government, will continue to work together on this but as mentioned above, for the Department to make a change to the IT build to accommodate the change in Split Payments, there would need to be considerable preparatory work done to ensure claimants are ready for a change and have bank accounts ready to accept payments.

Finally, I promised to come back to the Committee to provide more detail on the information related to payment into bank accounts. To recap, as part of the Families Research activity for the period December 2015 – August 2016, we sampled claims from lone parents and couples **with children**. The number of joint claims at that time was small (around a fifth of the total number surveyed). However, it did indicate that **more females in a joint claim received payment of UC** for the household (45% compared to 38% paid directly to males). It also showed that **under one 5th (17%) had a joint bank account**. I hope that the Committee finds this information helpful. For now, with employment rates between men and women continuing to narrow, households continuing to pool resources and the case for routinely splitting UC payments between claimants not changing since it was last debated in detail during the passage of the Welfare Reform Act in 2012, I believe that it remains appropriate to continue providing one monthly payment to a household into one bank account, retaining the option to split payment to couples on a case by case basis, where it is appropriate to do so.

From my own experience, I cannot see that split payments would make any significant impact on the incidence of domestic violence and my own view is that our energy and resources would be better spent ensuring our staff are appropriately trained to detect incidence of domestic violence, can handle those customers sensitively and appropriately and have strong links into the support services who can assist if needed.

A handwritten signature in black ink, appearing to read 'yanner' on the top line and 'li' on the bottom line, with a long horizontal stroke extending to the right from the end of the second line.

Kit Malthouse MP

Minister for Family Support, Housing and Child Maintenance

