

**MEMORANDUM TO THE WORK AND PENSIONS SELECT COMMITTEE
GOVERNMENT RESPONSE TO THE WORK AND PENSIONS SELECT
COMMITTEE REPORT ON WELFARE SAFETY NET,
THE TWENTY-EIGHTH REPORT OF SESSION 2017-19**

1. The Government thanks the committee for its Twenty-Eighth Report of Session 2017-19, on the welfare safety net.
2. The Government remains firmly committed to maintaining a strong welfare safety net. Welfare expenditure this financial year will be over £220bn; the UK spends more on family benefits than any other country in the G7.
3. It is vital, however, that the welfare system works with the tax system and the labour market to support employment and higher pay as the most-effective and only sustainable solution to poverty. Promoting full-time work and making sure that it pays is therefore central to the approach the Government is taking. Strong work incentives are a key feature of our welfare reforms, reinforced by the National Living Wage and the rising Personal Tax Allowance, which work together to promote independence from benefits.
4. The number of people in employment has increased by over 3.6 million since 2010 and wages are outstripping inflation- rising at their fastest rate in a decade. Three-quarters of the growth in employment has been in full-time work which substantially reduces the chances of being in poverty.
5. Universal Credit (UC) is now delivering a service to around 2.5 million households and has already shown that it is more effective in getting people into work than the legacy benefits it replaces. Nine months into a UC claim, 40% of claimants are working for an employer in a paid role, compared with only 23% at the start of their claim.
6. The Government has taken a range of actions to support those who need it. In the last Budget, for example, we announced a £4.5bn cash boost to UC that will make a huge difference to the lives of working families and provide extra support for people moving onto UC. In May 2019, we also announced that the maximum duration for a single sanction would be reduced from three years to six months.
7. The Government thanks the Committee for its recommendations which have been given full consideration.
8. The Government's response to these recommendations is set out below and forms the content of the remainder of this memorandum.

Recommendation 1

We recommend that Government adopts the Social Metrics Commission's metric as its official, central measure of poverty. It should continue to collect its existing poverty data alongside this, to maintain a long-term dataset.

We also recommend the Department provides us with an update on the progress of its work developing the Social Metrics Commission's measure by the end of 2019.

The Government welcomes the additional insights provided by the valuable work undertaken by the Social Metrics Commission and has already undertaken work to develop new experimental statistics, to be published in 2020, taking the work of the Social Metrics Commission (SMC) as a key contribution which has helped catalyse a fresh way of thinking about the measurement of poverty.

As the SMC makes clear in its reports, their measure is a work in progress and 'areas of the poverty measurement framework require further development or the collection of new data'.

The purpose of further work on new experimental statistics on poverty is to get them to the stage where they are of sufficient quality to be assessed for National Statistics status. At that point the Government will then assess whether to adopt this measure as an additional or sole statutory measure of poverty.

As part of this and in line with the Statistics Code of Practice, we will consult widely with all users of these statistics to ensure the statistics best meet a wide range of stakeholder needs and views, including engagement with the public about their perceptions and experiences of poverty.

The Government will be publishing a work plan and details for how stakeholders can engage with the development of these statistics and we will provide the Committee with an update on progress in due course.

The Government remains committed to publishing Households Below Average Income (HBAI) which contains the statutory measure of low income. The Department partially accepts this recommendation.

Recommendation 2

We recommend that the Department develop a measure of "destitution". This should build on the Social Metrics Commission's approach, establishing an independent commission to come up with a common, widely-accepted understanding of destitution and how it can be measured.

The Department does not agree with this recommendation. There is no agreed way of defining or measuring destitution. The Department already publishes a range of low income statistics and other measures that provide data and analysis of those who have the lowest living standards.

This includes severe low income (households with incomes below 50% of the median), as published in Households Below Average Income (HBAI), and persistent poverty (published in our Income Dynamics publication). HBAI also provides measures of material deprivation based on questions to parents and pensioners about their ability to afford the basics in life, such as heating homes and paying bills. These measures capture some of the evidence the Select Committee appear most interested in, including evidence on those who struggle to afford basic resources. In addition, new questions have been added to the Family Resources Survey to develop a food insecurity measure from 2021.

Furthermore, the Government's work on new poverty statistics, as mentioned above, will build on the Social Metrics Commission's work which proposes the inclusion of persistent poverty, depth of poverty and Lived Experience indicators. This approach has the potential to provide evidence of the experience of living in poverty, and identify who is experiencing different "levels" of poverty or destitution.

The Department also draws from a wide range of sources across Government to build a picture of poverty and destitution - and understand how best to address it – such as the Ministry of Housing, Communities & Local Government statistics on statutory homelessness and rough sleeping.

We also supplement Government data with evidence produced by organisations and academics outside of Government. For example, the Government is aware of and makes use of evidence produced by the Joseph Rowntree Foundation, including their work on destitution.

Recommendation 3

We recommend the Department introduce questions on household debt to the Family Resources Survey for 2020/21, so that it can include debt repayments in its calculation of the inescapable costs that households face.

The Government is considering changes to the Family Resources Survey (FRS) to add to or improve on the data in the current SMC measure. Although the Government cannot say at this stage whether adding questions on debt to the FRS survey is the best approach to improving on the SMC measure, this is being explored and we will keep this recommendation under review.

Recommendation 4

We have previously recommended that the Department introduce a flexible, discretionary approach to debt collection that takes affordability of repayments as its starting point, and that it takes steps to better understand the impact of deductions on claimant incomes and debt. We reiterate both of these recommendations, and further recommend the Department assess the impact of reducing the maximum deduction cap to 20%.

The Department's policy for recovering benefit overpayments already supports a flexible approach. If a customer contacts the Department to say that they cannot afford the rate of repayment (either deduction from their benefit or a voluntary repayment plan), the Department's Debt Management Team will discuss this with the customer and consider income and expenditure, alongside internal data and industry standard credit information, with the aim of agreeing a sustainable rate of repayment. In exceptional circumstances, a temporary suspension of benefit overpayment recovery may be agreed.

In addition, the Department is fully engaged with the HMT-led Breathing Space policy which will provide people and families with problem debt with protection from creditor action and access to debt advice so that they can identify an appropriate debt solution. DWP are represented in working level and senior civil servant cross-government governance groups, which have been put in place to oversee the delivery of the policy. In addition, we have worked closely with HMT in determining how DWP debts should be reflected in the design of the policy.

The Committee recognised positively the Department's plan to reduce the normal maximum rate of Universal Credit (UC) deductions from 40% to 30% of a claimant's standard allowance. This has now been successfully implemented. Lowering the maximum rate of deductions could see a couple receive up to an extra £600 per year in their first 12 months on UC, and we forecast that by the end of 2019/20, around 290,000 UC households will have had reduced debt repayments. There are no plans to further reduce the rate therefore the Department cannot accept this recommendation. The Department will continue to collect data on the number of claimants with, and the level of, deductions and work closely with a diverse range of stakeholders to listen to their views and to better understand their concerns, to ensure the widest possible range of insights are played into the design of Universal Credit.

Recommendation 5

We recommend that the Department commission an independent survey of the additional costs of disability and long-term health conditions. This should be developed alongside its new poverty measure as a means of understanding where benefits are falling short, and informing policy to address poverty amongst disabled people.

The Department partially accepts this recommendation. This Government wants to ensure we are providing the right support to help disabled people and people with health conditions realise their potential and to live independently. The Department has commissioned new research to better understand the needs of disabled people and how health and disability benefits are used to meet these needs. Announced by the then Secretary of State on 5 March 2019, this is a high profile research project to inform policy thinking now and in the future which will include delivering a Green Paper on wider reform. The research will be conducted independently by National Centre for Social Research (NatCen) and is designed to offer new insight into the experiences of people who claim health and disability benefits, including a better sense of how people use their money, the choices they make and whether they are being supported effectively.

We will consider the implications of these findings for the new poverty statistics being developed by the Department.

Recommendation 6

We recommend the Department extend its plans to publish data on the Flexible Support Fund to include research on Work Coach and claimant awareness of the Fund and its uses. The Department should use this opportunity to find out whether current guidance on the Fund is effective, how it can better publicise the Fund, and how it can ensure the Fund is being used to its full potential.

The Department does not agree with this recommendation. The availability of the Flexible Support Fund (FSF) is promoted actively in all Jobcentres and to all claimants who might benefit from it. Significant work is also being done to ensure that Work Coaches are aware of the financial support available through FSF to support eligible claimants move closer to, or into, work.

In addition to comprehensive guidance and support products already available to staff, the Department has been working hard to provide more clarity to claimants about the UC childcare offer, as well as the wider government childcare offer. Childcare costs have consistently been featured as one of the central messages in our 'Opening up Work' advertising campaign and have been promoted via both DWP and Jobcentre Plus social media channels.

Our Labour Market roadshows earlier this year included presentations on the importance of directing claimants to use the FSF first if they need help with childcare costs in order to take up a job and the use of budgeting advances for other situations. These messages have also been cascaded down to Work Coaches through teleconferences.

The Director General for Work and Health Services has written to all Jobcentre staff to highlight the importance utilising FSF to support claimants with cost of upfront childcare when starting a new job. A copy of the letter has been shared with the committee on 9 September 2019.

We have recently reviewed how FSF childcare payments are recorded. This change will allow us to better track and understand how FSF is being utilised to remove barriers to work for our claimants.

In June 2019 we moved to an open market approach which gives our Work Coaches the flexibility to source items from a wider range of national and local retailers. This offers the best value and ensures we are meeting the needs of customers. Purchases might include a suit for an interview or training towards a qualification that will move the customer closer to work or into work. Additional learning products have been issued to all operational staff to explain how payments are authorised and to increase work coach confidence with further upskilling sessions available for staff should they be needed.

Recommendation 7

We recommend the Department reconsiders its decision not to divert funding from wealthier families claiming Tax Free Childcare, into Universal Credit. It should also provide in response to this report any analysis it has carried out to inform this decision, particularly relating to changes to in work incentives for high earners on Tax Free Childcare.

Currently there are no plans to divert funding from Tax Free Childcare into Universal Credit and therefore the Department does not accept this recommendation. The Government is committed to supporting parents into work and closing the gender pay gap, so it is right that the Government provides support to all families with their childcare costs, especially where they act as a barrier to work. Tax-Free Childcare and the 30 hours' free childcare therefore target support at working families who require additional support in order to return to work or to work more hours.

The policy has not been embedded long enough to allow an analysis on work incentives for high earners on Tax-Free Childcare to be conducted. The number of families using a Tax-Free Childcare account has been on an increasing trend since it was launched in April 2017.

Recommendation 8

We recommend that, while it devises a system for splitting payments, the Department makes all UC payments to main carers by default.

The Department does not agree with this recommendation. Currently, around 60% of UC payments go to the woman in a joint claim, who is usually the main carer. We feel it is important that the household maintains choice about who the UC payment is paid to. However, we have recently introduced changes to the claimant messaging to encourage couples with children to direct the UC payment to the main carer and we have committed to reviewing the effectiveness of this change.

We believe that most couples can and want to manage their finances jointly without state intervention. We recognise though that there are circumstances in which split payments are appropriate and when someone requests a split payment, we will support them by putting this into place and will discuss with them the other support available. Split payments can be used to support claimants in a number of different scenarios where there is financial mismanagement, for example when one member of the couple has an addiction, or is a victim of domestic abuse.

We will continue to work closely with the Scottish Government to establish the practicalities of delivering split payments in Scotland. We will observe their implementation to further understand the impacts, potential advantages and challenges of this policy.

The Government shares the determination to support and protect victims and survivors of domestic abuse. Universal Credit continues to support all victims of domestic abuse

to claim benefits through a range of measures. These include easements, advance payments, referring to a local authority for accommodation support and signposting to expert partner organisations. We have listened to the concerns of stakeholders and, are taking forward a range of initiatives to improve our service.

We now have Domestic Abuse Points of Contact in every Jobcentre who have been trained by Women's Aid to identify and support the needs of anyone experiencing domestic abuse. They will work closely with local services to share knowledge, signpost victims and survivors to expert external support and be a source of support for Work Coaches.

Recommendations 9

We recommend that, from 2020/21, the Government should increase the rates of frozen benefits by CPI plus 2%. That would mean that benefit rates would, after 4 years, reach the level at which they would have been set if they had not been frozen. From that point, the Department should commit to uprating benefits at least in line with inflation.

We recommend that the Department produce a medium-term plan for linking the rate at which benefits are set with the real cost of living. It should set out how it plans to identify a method for doing this, and how long it expects this work to take.

The Benefits freeze was implemented at a time of great public debate about the fairness of benefits outstripping earnings growth and the sharp rise in the benefits bill. It is part of a package of reforms designed to incentivise work and make welfare fairer to those that receive it and fairer to taxpayers who pay for it.

The Welfare Reform and Work Act 2016 that froze the majority of working age benefits excluded payments relating to the additional costs of disability, and for carers (including Disability Living Allowance, Personal Independence Payment and Carer's Allowance). State Pension and benefits for pensioners were also exempt from the Benefit Freeze, because they are for people who are generally on fixed incomes and have permanently left the labour market. For those in a position to work, earnings provide the best opportunity for income progression.

The Government notes the Committee's recommendation for the outcome of the Secretary of State's review, but statute is clear that she can only make decisions at the time of her formal review. The Secretary of State uses CPI in her review of changes in prices because it is the target level of inflation used by the Bank of England, has a methodology in line with international standards and uses a basket of goods and services relevant to pensioner and benefit recipients.

Recommendation 10

We also recommend that the Department unfreeze Local Housing Allowance as planned in 2020/21, and restore rates to at least the 30th percentile of local market rates. Thereafter, the Department should commit to uprating Local Housing Allowance in line with rental prices.

The Department is considering this issue. Like all policy, the appropriate level of LHA is kept under review. The Government recognises that the impact of freezing LHA rates may have different effects across the country. We have used Targeted Affordability Funding to increase rates that have diverged the most from local rents. Additional Targeted Affordability Funding made available at the Autumn Budget 2017 enabled more rates to be increased in 2018/19 and 2019/20. In 2019/20 we have increased 361 LHA rates by 3% which amounts to over a third of all LHA rates and over 80% of rates in London (where rents are particularly high). Since 2011 the Government has also provided over £1 billion Discretionary Housing Payments to local authorities to protect the most vulnerable claimants, in 2020/21 this will include an additional £40 million allocated at the Spending Round earlier this year. We are also working together with MHCLG on how best to support people on low incomes to secure an affordable place to live.

Recommendation 11

We recommend that where the benefit cap does apply, it should be unfrozen and uprated in line with inflation.

The Benefit Cap restores fairness between those receiving out-of-work benefits and taxpayers in employment and provides an incentive to move into work. There is clear evidence that work, particularly full-time work, substantially reduces the chances of poverty; children in workless families are around three times more likely to be in poverty (both absolute and relative, before and after housing costs) when compared to families where at least one adult works.

The Committee will be aware that the Department is currently undertaking a comprehensive evaluation of the benefit cap. As part of this the National Centre for Social Research (NatCen) has been commissioned to undertake research through a quantitative longitudinal survey of capped households under both Housing Benefit and Universal Credit together with qualitative case studies of local authorities. Alongside this detailed research, the Department is also undertaking analysis of capped households, which will be peer reviewed by the Institute for Fiscal Studies (IFS). The results of these two strands of evaluation will be published together in due course.

There will not now be an opportunity to review the levels of the cap in this Parliament. There is, however, a statutory duty to review the levels of the cap and so a review will necessarily take place at an appropriate point in the future. The Government cannot accept this recommendation at this time because to do so would pre-empt the outcome of such a review.

Recommendation 12

We recommend the Department publish an updated impact assessment of Universal Credit, taking into account policy changes since 2011/12. It should illustrate this with anonymised case studies and worked examples which demonstrate the impact on individual claimants with a range of different circumstances.

The Department does not agree with this recommendation. In line with the public sector equality duty, we regularly consider equality impacts on all major changes to Universal Credit. This process is iterative, so we continue to consider them as we develop our approach in response to evaluation from our test and learn approach.

The Department has already published numerous assessments for major changes to Universal Credit – a list is provided at annex A. In addition, we have committed to publish a report with an assessment of the impacts of managed migration after the pilot and before bringing forward legislation to increase the scale of managed migration.

We also recommend that the Department commission and publish a cumulative impact assessment on the effect of welfare reform since 2010 on claimant incomes. This should set out clearly the impact on incomes of people with protected characteristics (for example, health/disability, gender, and age).

The Treasury and other Departments carefully consider the impact of their decisions on those sharing protected characteristics in line with both their legal obligations and with their strong commitment to promoting fairness.

While we already consider equalities impacts, we have substantial reservations about whether robust cumulative analysis can be produced that accurately identifies the impacts of policies on individuals with different characteristics who live in the same household. The independent Institute for Fiscal Studies share this view and have said “because most people live in households with others, and we don't know how incomes are shared, it is very hard to look at effects separately for many men and women.”

Even where assumptions on income sharing within households are less crucial, it is still difficult to include the value of public spending on benefits-in-kind and not doing so would present a partial and misleading picture of Government policy.

Recommendation 13

We recommend the Department work with its stakeholders including claimants and delivery partners, including Citizens Advice, to establish suitable performance measures for its working-age benefit delivery and to implement these. The measures should be published and accompanied by clear targets, and monitored initially by an internal review body and external advisory board. We recommend that alongside this the Department scopes whether there is a case for establishing an independent regulator for working age benefits and services. It should set out an interim assessment in response to this report

The Department has a set of quality standards in place, along with internal processes and governance which supports assurance of those standards and continuous improvement. We continually monitor performance regarding working-age benefit delivery and publish the data collected in our annual report. However, it does not accept the Commission's recommendation to set performance targets or to introduce regulatory oversight.

The Department's goal is to ensure that claimants are paid what they are entitled to, when they are entitled to it. In some cases, this means that the Department makes decisions and takes actions in as little as one day. Internal data shows that the majority of claimants are paid in full and on time. Of the households on Universal Credit in April 2019 that have been paid, 94% received full payment on time and households with new claims to Universal Credit in April 2019, 83% received full payment on time.

However, the Department believes that it is important to balance timeliness of actions with delivering quality outcomes, tailoring and personalising its approach according to the needs and capabilities of the claimant. For example, it wants to ensure that where a claimant has health issues, the Department takes that into account on an individual basis and gives claimants time to produce evidence; despite this meaning that making a decision must necessarily take longer. The Department does not believe that target driven cultures help drive the best outcomes for claimants in such circumstances.

We are bringing together our customer insights and learning functions into a new Customer Experience Directorate to improve how we monitor our services and continually improve them using feedback from customers. This will include working closely with the Department's Independent Case Examiner to understand our feedback and ensure we are implementing learning effectively.

The new Serious Case Panel has been created to oversee how we investigate cases where a customer, potentially due to the Department's actions or inactions, has come to harm. The Panel will make recommendations to the Department and help to assign accountability at the most senior levels in the organisation for ensuring sustainable improvements are implemented. Independent panel members will have a key role in improving the rigour of our processes using their broader expertise, whilst ensuring there is robust challenge and assurance of investigations. We will be finalising membership of the panel over the next few months to ensure we achieve a range of perspectives and make the panel effective.

We will continue to look at ways to increase trust in the Department and the services we provide, including through more transparent monitoring and scrutiny of the quality of working age services.

ANNEX A: Assessments of the impacts of major changes to Universal Credit

Welfare Reform Act 2012

Welfare Reform Act 2012: Equality Impact Assessments:

<https://www.gov.uk/government/collections/welfare-reform-act-2012-equality-impact-assessments>

Lone Parent Obligations: An Impact Assessment:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/211688/rrep845.pdf

Welfare Reform and Work Act 2016

Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element:

<https://www.parliament.uk/documents/impact-assessments/ia15-006e.pdf>

Welfare Reform and Work Act: Impact Assessment for the benefit cap:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/548741/welfare-reform-and-work-act-impact-assessment-for-the-benefit-cap.pdf,

Equality Analysis for The Benefit Cap (Housing Benefit and Universal Credit) (Amendment) Regulations 2016:

http://www.legislation.gov.uk/ukxi/2016/909/pdfs/uksiod_20160909_en.pdf

Welfare Reform and Work Bill: Impact Assessment for the change in conditionality for responsible carers on Universal Credit:

<https://www.parliament.uk/documents/impact-assessments/IA15-006A.pdf>

Welfare Reform and Work Bill: Impact Assessment to remove the ESA Work-Related Activity Component and the UC Limited Capability for Work Element for new claimants:

<https://www.parliament.uk/documents/impact-assessments/IA15-006B.pdf>