# Universal Credit Rescue Committee: Independent Report to the Labour Party

23rd June 2014

## Introduction and summary

The Universal Credit Rescue Committee was asked by the Labour Party to look at how to rescue the delivery, and improve the design, of the new Universal Credit system that will replace a large number of out-of-work benefits and tax credits.[1]

In conducting our work, we noted that the Labour Party has consistently supported the principle of Universal Credit, which has the potential to simplify substantially the working age benefits system, and to make it much clearer to people than at present how their financial position would change on moving from unemployment into work.

However, delivery of the Universal Credit project has consistently failed to meet its published milestones, and features of its design look set to leave many claimants with poorer work incentives than under the present system. We were asked to examine how the system could be improved in a cost neutral way within the Universal Credit budget, bearing in mind that the system already involves significant additional costs.[2]

We were aware that the Labour party has emphasised that Universal Credit is only one of a number of measures that will be necessary to achieve the aims of a Labour Government to ensure that more people are working, to make work pay, and to tackle child poverty. Measures to strengthen the National Minimum Wage, to tackle the exploitative use of zero hours contracts, to expand childcare for working parents, to help more disabled people to access employment and a decent standard of living, and to improve employment support, including through a compulsory Jobs Guarantee will all be essential tools if these aims are to be achieved, and we note that these changes should also help to control the cost of social security. The operation of Universal Credit must support rather than frustrate these goals.

In order to achieve this, we recommend change in three areas:

### 1) Delivery

Universal Credit will never achieve its aims if it cannot be delivered across the country in a way that avoids the risk of large scale fraud and error. The Universal Credit project has consistently failed to meet its published milestones and the repeated refusals to provide detailed information makes it almost impossible to assess the current state of the project.

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[1] Universal Credit will replace Child and Working Tax Credit income based Jobseeker's Allowance and Employment and Support Allowance, Income Support, and Housing Benefit.

[2] The costs of Universal Credit are expected to be as follows:

- An additional £2.3 billion due to increased entitlement and take up (Impact Assessment published 2012);
- £2.4 billion expected implementation costs up to 2023 (National Audit Office).
- The Government expects these to be offset by savings of £2.2 billion due to reduced fraud and error, and reforms to the rules about how changes in income will work (Impact Assessment).

**We recommend that an incoming Labour government undertakes a full review of the Universal Credit project, including assessing frankly which parts of the project can be rescued, and an analysis of the Business Case for the project**.

**They should publish the Business Plan that results, and should report quarterly to Parliament on progress against this plan. They should invite the National Audit Office to examine the Business Plan and each quarterly report, and report to Parliament publicly on these.**

## 2) Work incentives

We hope that Universal Credit will improve work incentives, at least in part through the increased transparency and simplicity that should arise when the system is fully functioning.

However, we are concerned that two aspects of the current design in particular will damage work incentives, and make it harder for Labour to meet their long term goals. We are clear that any changes must be funded from within the existing Universal Credit budget, but recommend that the Review examines the trade-offs involved in addressing these issues.

First, we are concerned that Universal Credit will weaken the incentive for second earners in couples to work. One in five children in poverty now lives with a single-earner couple, and ensuring that more second earners, principally women, are able to take up employment will be critical to reducing child poverty rates.[3]

Secondly, the decision to leave Council Tax Support out of Universal Credit means that the aim of simplicity is being undermined, with many claimants facing two separate rates of benefit withdrawal when they move into work or their incomes increase. We believe there is a case for reviewing whether Council Tax Support should be integrated into Universal Credit, and recommend that the Review re-examine the pros and cons of such an approach.

## 3) Payments

If Universal Credit is to deliver a better and more secure system of in and out-of-work support, it needs to reflect the reality of families' lives. We believe that the decision to pay Universal Credit only to one member of a couple, rather than reflecting the current system in which payments with respect for children can be paid to the main carer risks transferring money from 'purse to wallet', with significant risks for many women.

**We therefore recommend that the elements of UC relating to children should be paid to the main carer of the children, usually their mother, even when the balance of the UC payment is made to the other member of a couple**. The Review should look at the most cost-effective and practical way to make this change within the current funding.

Universal Credit also risks substantially increasing red-tape for the growing number of people who are self-employed, asking them to understand three separate sets of accounting rules in order to

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[3] For example, research by the TUC and Child Poverty Action Group recommends that the introduction of an additional work allowance for second earners would be an effective means of increasing work incentives for couples.

comply with Government regulation. **The review should examine how best to simplify the system of reporting income within Universal Credit for the self-employed**.

**1) Delivery**

The Universal Credit projects has consistently failed to meet its published milestones and the repeated refusals to provide detailed information makes it almost impossible to assess the current state of the project.

As the National Audit Office concluded in their report of September 2013, the project has been managed poorly and "*Throughout the programme the Department has lacked a detailed view of how Universal Credit is meant to work***.**"[4]

The National Audit Office highlight the project management of Universal Credit as characterised by:

- **'Lack of transparency and challenge'** with a 'fortress mentality within the programme team, and a good news reporting culture'
- **'Inadequate financial control over supplier spending';** and
- **'Ineffective departmental oversight'.**

The consequences of this poor management for both claimants and the taxpayer have been significant. While the original plan for Universal Credit roll out said that there would be over a million claimants by April 2014, the latest statistics show that as at February 2014, just 5,180 were actually claiming.[5]

Moreover, the DWP's annual report for 2012/13 revealed that over £40 million of IT has had to be written off, and a further £90 million will be written down over a period of five years.[6] As the Auditor General concluded in his report on the accounts, future IT development remains uncertain. His assessment is worth quoting at length:

*"While the £151.9 million asset recognised in the accounts at 31 March 2013 is free from material misstatement, the overall cost of developing assets to support Universal Credit is subject to considerable uncertainty. The Department acknowledges in Note 16d to the accounts, that there is uncertainty over the useful economic life of the existing Universal Credit software pending the development of the alternative digital solution and uncertainty over whether Universal Credit claimants will be able to migrate from the current IT infrastructure to the new digital solution by December 2017.*

*In approving the development of a digital solution for the delivery of Universal Credit, the Ministerial Oversight Group noted that the investment and recurrent costs of this solution are*

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[4] National Audit Office (2013) *Universal Credit: early progress*
[5] DWP (May 2014),
*Universal Credit – experimental official statistics to February 2014*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/310972/universal-credit-first-release-may14.pdf
[6] Department for Work and Pensions Annual Report & Accounts 2012-13 (For the year ended 31March 2013)

*between £25 and £32 million up to November 2014. The Department's intention is to build a core digital service that will deliver to 100 people by then, after which it will assess the results of that work and consider whether to extend the service to increasing numbers. At this early stage in its development, there are uncertainties over the exact nature of the digital solution, and in particular:*

- *How it will work;*
- *When it will be ready;*
- *How much it will cost; and*
- *Who will do the work to develop and build it.*

In the light of this uncertainty, it is clear that the state of the Universal Credit project, its management, assets, and the potential for it to roll out as planned, will require a fundamental reassessment by an incoming Government. **We recommend that an incoming Labour government undertakes a full review of the Universal Credit project, including assessing frankly which parts of the project can be rescued, and analysis of the Business Case for the project**. Our hope is that it can be, but this cannot be taken for granted. Taking some months, it will be necessary to produce a clear vision for the project, define its goals, consider whether they can be achieved and, if they can, formulate a robust plan for delivering them.

Given that a lack of transparency has, in our view, contributed to the problems faced by Universal Credit, as well as damaged the legitimacy of the project with Parliament and the Public, we believe that a new openness is required if the project is to move forward.

**An incoming Labour Government should publish the Business Plan that results from this review, and should report quarterly to Parliament on progress against this plan. They should invite the National Audit Office to examine the Business Plan and each quarterly report, and report to Parliament publicly on these.**

Universal Credit depends for its effective functioning on a parallel HMRC PAYE Real Time Information project. That has, however, recently also suffered delays,[7] and accountants have

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[7] The Government initially claimed that all employers would be using RTI by October 2013.

> Asked by Lord Kennedy of Southwark: To ask Her Majesty's Government how many employers will be ready for real time information PAYE in March 2013.[HL12149]
> Lord Sassoon: HMRC will pilot real time information (RTI) from April 2012 to test the system. Around 300 volunteer software developers, employers and pension providers are taking part in this. The department is exploring whether more employers and pension providers could be brought into RTI during 2012-13, if the pilot is working well.
> The remaining employers and pension providers will start using RTI from April 2013. HMRC expects all employers and pension providers to be using RTI by October 2013, in time for the introduction of universal credit.
> *Hansard, written answer, 17 October 2011, Column WA37*

However earlier this year the Government announced that the adoption of RTI would be delayed until next year for small businesses.

> "A phased approach is now being adopted to get the remaining 1.9 million employer schemes into RTI by the October 2013 deadline. As part of this phased approach, in March 2013, HMRC announced a temporary relaxation to 5 October 2013 of RTI reporting arrangements for small businesses (fewer than 50 employees) to allow extra time for these employers to adapt their processes and change arrangements with payroll providers. On 12 June 2013, HMRC announced that it will be seeking to extend this temporary relaxation until April 2014."

complained about aspects of its implementation. RTI will need to be included within the scope of the Review, although it appears to be much nearer readiness than the UC system.

We regard the role of local authorities and their partners in supporting Universal Credit claimants as crucial. The Labour Party is also arguing for an expanded role for local areas and regions in employment support and the committee welcome the current discussions between the DWP and local authorities in Greater Manchester and elsewhere about how councils can best support welfare reform. The Universal Credit Review should identify the good practice being developed in these discussions for application more widely.

**Timeline of Universal Credit Delivery**

**November 2010** White Paper on 'Universal Credit: welfare that works' states that from October 2013, all new claims for out-of work benefits would be for Universal Credit, by April 2014 no new claims would be made for tax credits, and that Universal Credit would be fully in place by October 2017.[8]

**November 2011** Government state that over a million people would be on Universal Credit by April 2014.[9]

**June 2012** Government announce that the introduction of Universal Credit for new out of work benefit claims would be limited to one Jobcentre per region, but that by mid 2014 'all new benefit claims for those in and out of work will be for Universal Credit'.[10]

**September 2013** The National Audit Office confirm that the Government 'reset' Universal Credit earlier that year because of concerns raised by the Major Project Authority, that the Department has "delayed" rolling out Universal Credit nationally and recommend that the Department "scale back its original delivery ambition" and is "reassess what it must do to roll-out Universal Credit to claimants".[11]

**December 2013 :** Iain Duncan Smith sets out a new timetable for Universal Credit. This confirms delays, announcing that Universal Credit will not be fully available in each part of Great Britain until 2016 and that the majority of the remaining legacy case load will not move on to universal credit until 2016 and 2017.[12] No date by which all claimants will be on the new benefit has been set.

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*National Audit Office, HM Revenue & Customs 2012-13 Accounts Report by the Comptroller and Auditor General, R29,* *http://www.nao.org.uk/wp-content/uploads/2013/07/10174-001_HMRC_Standard-report.pdf*

[8] *Department for Work and Pensions, Universal Credit: Welfare that Works, November 2010, p.37,* *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf*

[9] *Department for Work and Pensions press release, 1 November 2011,* *https://www.gov.uk/government/news/iain-duncan-smith-sets-out-next-steps-for-moving-claimants-onto-universal-credit*

[10] *"Department for Work and Pensions, e-zine, Touchbase, June 2012,* *http://www.dwp.gov.uk/docs/touchbase-ezine-june-2012.pdf*

[11] National Audit Office (2013) *Universal Credit: early progress*

[12] House of Commons Hansard 5 December 2013, column 65WS http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm131205/wmstext/131205m0001.htm

## 2) Work Incentives

Universal Credit aims to boost the incentives to work through two means. First, increased simplicity, with the gains to each hour of work being clearer, as families face only one reduction in benefit payments, rather than seeing their earnings reduced by tapers both on Housing Benefit and on Tax Credits.

Second, by a change in the distribution of incentives to work throughout the system, which particularly benefits those who want to work for less than 16 hours. While we welcome this increased incentive, we should note that it is achieved at the expense of an overall increased in Marginal Deduction Rates – that is, the rate at which benefits are withdrawn as earnings increase - although the number of those facing very high marginal deduction rates due to the combined reduction of Housing Benefit and Tax Credits will fall.[13]

We welcome the direction of travel set out by Universal Credit, and believe that it has the potential to help more people to achieve their ambitions to work.

However, we note several areas where the current system may damage work incentives, and which we believe should be priorities for the Review to examine the costs and benefits of addressing within the overall spending envelope for Universal Credit.

*Increased complexity*

While we are supportive of the aim of Universal Credit in simplifying the benefit system, there are concerns that the exclusion of Council Tax Benefit threatens to undermine this goal. The Institute for Fiscal Studies states that, "*separate means tests for council tax support could undermine this* [improved work incentives]*, with the potential to reintroduce some of the extremely weak work incentives that Universal Credit was supposed to eliminate. It is difficult to think of reasons why the government's original plan to integrate CTB into Universal Credit was inferior to what is now being proposed.*"[14]

We believe there is a case for reviewing whether Council Tax Support should be integrated into Universal Credit, and recommend that the Review re-examine the pros and cons of such an approach, which could generate administrative savings for government.

We are concerned that the Government has not yet concluded how passported benefits such as Free School Meals should be treated under Universal Credit, nearly four years after first announcing the policy. This may be an outstanding policy issue that the Review will need to resolve. We recommend that the solution identified

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[13] Universal Credit Impact Assessment, 2012.
[14] Stuart Adam and James Browne (2012) *Reforming Council Tax Benefit* IFS.

should be one which does not damage work incentives; which would run contrary to the purpose of Universal Credit.  This will require a collective approach across departments which has not been achieved so far.

*Weakened incentives for particular groups*

While on balance we believe that Universal Credit should achieve a modest improvement in work incentives, we are particularly concerned about the damage that the current design of the system will do for incentives for second earners to enter work. As the Government's own impact assessment points out, Universal Credit will decrease the incentive for second earners to both enter and progress in work, with 300,000 second earners seeing their incentives to progress reduced. As the Impact Assessment notes, *"it is possible that in some families, second earners may choose to reduce or rebalance their hours or leave work."*[15]

In the context of a cross-party commitment to tackle child poverty, this seems a particularly poor strategic choice. With 19 per cent of children living in poverty now in one-earner couple families, (second only to the children of workless lone parents who make up 20 per cent of poor families), helping more second earners, most of them women, to achieve their ambitions to work, must be a vital part of any child poverty strategy.[16]

We also highlight two further concerns about the current design of Universal Credit, which we recommend that the Review considers how best to resolve within the current funding envelope.

First, we are concerned that the support for self-employment may be damaged by the design of Universal Credit. We make recommendations to improve the administration of support for the self-employed in the next section, but remain concerned that the introduction of a 'minimum income floor' through which the self-employed will be treated as having earned a certain amount a week could damage the prospects for self-employment at a time when incomes from this type of work are declining.[17]

Second, although we welcome the increased support that Universal Credit will offer to those working in short hours jobs, particularly for those with disabilities, we remain convinced that the balance of support should encourage people to work for 16 hours or more. We are not convinced that in-work conditionality, where the Government has as yet set out no clear plans, will be an effective move to encourage this, and recommend that the review consider alternative means of incentivising longer-hours work.

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[15] Universal Credit Impact Assessment, 2012.

[16] Research by CPAG and the TUC sets out how an additional work allowance for second earners, would be an effective way of increasing work incentives for this group. See http://touchstoneblog.org.uk/2014/06/can-universal-credit-be-made-to-work-in-reducing-poverty/

[17] Conor D'Arcy and Laura Gardiner (2014) *Just the job or a working compromise?* Resolution Foundation.

3) **Payments**

If Universal Credit is to bring real improvements for claimants, it needs to recognise the reality of family lives. The way in which financial support is paid can have a fundamental impact on how families are able to use this money, and on how the benefit, and the wider system of back-to-work and in-work support that surrounds it, is perceived.

A number of issues have been raised with the way that Universal Credit will be paid to claimants, including the 'digital by default' nature of the process, the support available to claimants to manage housing costs once these are paid directly to them, and the timing of payments. We think that advice and support for claimants will be crucial in managing these issues, and the role of local authorities and their partners in this respect will be important.

In addition to this, we recommend that the provision for the first UC payment to be made early should be better publicised. It would also be helpful if claimants could choose the date in the month on which to receive their UC payment, and the Review should consider if this would be possible within the current spending plans.

In one area however, we are clear that change is needed. It has been a long-standing convention that payments in respect of children should be paid to the main carer. Universal Credit at present will break that convention, risking a large 'purse to wallet' transfer of resources, with particular consequences for carers, normally women, in unequal or abusive relationships. We agree with the finding of the Work and Pensions Select Committee that *"a single household payment may not be suitable for every household claiming Universal Credit. There is a potential for women to lose out, and money intended for children or rent to not be used for this purpose."*[18]

**We therefore recommend that the elements of UC relating to children should be paid to the main carer of the children, usually their mother, even when the balance of the UC payment is made to the other member of a couple**. The Review should look at the most cost-effective and practical way to make this change within the current funding.

Finally, we believe that the current system of assessment for Universal Credit could again risk disadvantaging the self-employed. As the Low Incomes Tax Reform Group have pointed out,

"*with the current proposals by the two Departments, instead of simplification, the rules will actually become more complex for small business proprietors who are also claimants of universal credit. They will have to understand three sets of rules for*

[18] Work and Pensions Select Committee (2012) *Universal Credit implementation: meeting the needs of vulnerable claimants.*

*arriving at their profit figure – the accruals basis and the cash basis for tax, and the different cash basis used by the DWP – and this is an unnecessary complexity. This could mean they will have to engage in a complicated series of 'better off' calculations to understand their overall tax and benefits position, and probably engage advisers – paid or unpaid – to assist. The smallest businesses will have to account 12 times a year to DWP, and draw up accounts separately for HMRC for income tax purposes and again for VAT."*[19]

We therefore recommend that the review examine how best to simplify the system of reporting income within Universal Credit for the self-employed. Without this change the growing number of self-employed risk increased administrative complexity and red tape from the introduction of Universal Credit, which may damage their business. We note that the Office for Tax Simplification recommended in their report to Government on the tax treatment of small businesses that "*the definition of income for the new Universal Credit should have regard to changes that may be introduced to simplify tax for the smallest businesses"*[20] and will take this as the principle for action in this area.

[19] http://www.litrg.org.uk/Resources/LITRG/Documents/2012/08/SSAC_-_universal_credit_and_related_regulations_0712_(final).docx.pdf

[20] Office of Tax Simplification (2012) *Small business tax review: Final report Simpler income tax for the smallest businesses*

**Conclusion**

Delays and waste have plagued Universal Credit since its inception, enabled by a culture of secrecy and 'good news reporting' within the Department for Work and Pensions that has hampered effective scrutiny of the project. Openness and transparency will be key to rescuing the project, but this must start with a full assessment of its current status, and a realistic plan for roll out.

Design flaws in the current system look set to predominantly disadvantage women, with reduced incentives for second earners to enter work, and a system of payments that could take support for children away from the main carer. Our view is that these issues should be the priorities for an incoming Labour government to address.

If these issues can be resolved, Universal Credit has the potential to simplify the social security system, and to improve the incentive to work. But to achieve the aims of full employment, work that pays, and reduced child poverty, it must sit alongside wider changes in employment support, improved wages, and more affordable childcare.

*Summary of conclusions:*

- We recommend that an incoming Labour government undertakes a full review of the Universal Credit project, including assessing frankly which parts of the project can be rescued, and an analysis of the Business Case for the project.

- They should publish the Business Plan that results, and should report quarterly to Parliament on progress against this plan. They should invite the National Audit Office to examine the Business Plan and each quarterly report, and report to Parliament publicly on these.

- We are concerned that two aspects of the current design in particular will damage work incentives, and make it harder for Labour to meet their long term goals. We are clear that any changes must be funded from within the existing Universal Credit budget, but recommend that the Review examines the trade-offs involved in addressing these issues:

    - First, we are concerned that Universal Credit will weaken the incentive for second earners in couples to work. One in five children in poverty now lives with a single-earner couple, and ensuring that more second earners, principally women, are able to take up employment will be critical to reducing child poverty rates.[21]

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[21] For example, research by the TUC and Child Poverty Action Group recommends that the introduction of an additional work allowance for second earners would be an effective means of increasing work incentives for couples.

  - Secondly, the decision to leave Council Tax Support out of Universal Credit means that the aim of simplicity is being undermined, with many claimants facing two separate rates of benefit withdrawal when they move into work or their incomes increase. We believe there is a case for reviewing whether Council Tax Support should be integrated into Universal Credit, and recommend that the Review re-examine the pros and cons of such an approach.

- We recommend that the elements of UC relating to children should be paid to the main carer of the children, usually their mother, even when the balance of the UC payment is made to the other member of a couple. The Review should look at the most cost-effective and practical way to make this change within the current funding.

- Universal Credit also risks substantially increasing red-tape for the growing number of people who are self-employed, asking them to understand three separate sets of accounting rules in order to comply with Government regulation. The review should examine how best to simplify the system of reporting income within Universal Credit for the self-employed.

**About the Universal Credit Rescue Committee**

The Universal Credit Rescue Committee was formed as an independent committee, to advise the Labour Party on how to rescue the delivery, and improve the design, of the new Universal Credit system that will replace a large number of out-of-work benefits and tax credits.

The Committee was chaired by Kieran Quinn, Leader of Tameside Council. Other members of the committee were:

Richard Exell, Trades Union Congress
Ruth George, USDAW
Donald Hirsch, Centre for Research in Social Policy, Loughborough University
Jonathan Mitchell, Director of CIO Strategic Advisors Ltd and Former CIO at Rolls-Royce plc.

Deven Ghelani of Policy in Practice acted as an independent adviser to the committee.