Northern Ireland Assembly

Committee for Social Development

OFFICIAL REPORT
(Hansard)

Welfare Reform: Flexible Payments under Universal Credit

18 April 2013

NORTHERN IRELAND ASSEMBLY

Committee for Social Development

Welfare Reform: Flexible Payments under Universal Credit

18 April 2013

Members present for all or part of the proceedings:
Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Sydney Anderson
Ms Paula Bradley
Ms Pam Brown
Mr Gregory Campbell
Mrs Judith Cochrane
Mr Michael Copeland
Mr Fra McCann

Witnesses:

Mr Tommy O'Reilly	Social Security Agency
Dr Colin Sullivan	Social Security Agency

The Chairperson: I welcome Tommy O'Reilly and Colin Sullivan. Without further ado, I suggest that you make your presentation.

Mr Tommy O'Reilly (Social Security Agency): Thank you for the opportunity to come along this morning. As you are aware, the Minister made his announcement on 22 October 2012 with regard to flexibilities in universal credit (UC). At that time, we committed to a programme of consultation on the criteria for the flexibilities. Since then, there has been a programme of public and private meetings and events. We have listened to the views of the voluntary and community sector, political parties and members of the public.

We have been working closely with Department for Work and Pensions (DWP) colleagues on the policy and ICT implications since 22 October 2012. I have to say that progress has not moved at the pace that we would like. That has probably primarily been down to the well-publicised challenges associated with the universal credit programme in Great Britain. However, we recently met Ministers and officials, and they remain committed to our implementation dates of April 2014, and we will expect to see progress moving forward apace when the eligibility criteria have been finalised.

The papers forwarded to the Committee broadly implement the ideas that were contained in a set of papers that was issued recently to the Executive subcommittee on welfare reform and also to the oversight board. Those ideas sparked significant debate at both meetings, and the programme team is reflecting on those comments. Today, we want to hear your views on how the flexibilities may work. Colin will shortly take you through a short presentation on that.

The Minister wishes to ensure that the Committee will have a further opportunity to comment on the final set of proposals, and we hope to come back to the Committee in the next couple of months on that. At this point, I will hand over to Colin. If you are content, we are happy to take questions at the end of the presentation.

Dr Colin Sullivan (Social Security Agency): Thank you. The presentation, which is at annex A in your papers, starts with three slides highlighting the status quo for the three areas of flexibility that we are looking at. The first deals with frequency. The current position is that the bulk of social security payments are paid fortnightly. Indeed, we pay very few weekly — 0·3% or 490 out of 180,000 payments. The rest are fortnightly.

For tax credits, the split is between weekly and four weekly; two thirds are weekly and the rest are four weekly. Frequency is not an issue for the bulk of housing benefit customers because direct payments are made to landlords. However, for those who opt out, which is about a quarter of the private rented sector, they are paid fortnightly at present.

As for split payments, social security benefits are paid to a nominated account for an individual, so it is not an issue for social security payments at present. However, it will become a household benefit or payment under universal credit, so it will be an issue in future. Child tax credit and the childcare element of working tax credit are paid to the main carer. In very few cases there are disputes, and in those cases, the HMRC commissioners need to resolve the issues. It is not relevant for housing benefit because it is the cost for the house in which the household is located.

At present, most housing payments are made directly to the landlord, and the Minister has been clear from the outset that he wants that to continue. As I have said, about a quarter of private rented sector tenants have the housing element paid to themselves, but the rest are direct payments to landlords.

Slide 5 relates to the oversight board. The Minister created that activity to develop criteria started in November at an event in the Long Gallery; in January, there were two public open events where members of the public gave their views. The oversight board has started to work through the criteria, and what you see today is its thoughts on proposals. As Tommy said, those proposals were presented to the Executive subcommittee for welfare reform.

Slide 6 gives the oversight board's latest thinking and proposals for flexible payments. The first is frequency. The proposal is that twice-monthly payments would be available to a series of categories of claimants. One category would be those with no income; in other words, those on social security benefits. That would account for about 155,000 of about 287,000 claimants and roughly half the caseload we are talking about. The paper shows bandings where the threshold could be set, but you could have a number of customers on low pay. For example, if we took £10,000 as the cut-off point, which is roughly the national minimum wage for someone who is working full time, that would bring the number up to 185,000. We also thought that those on fluctuating or seasonal income could benefit from more frequent payments. Below that is a series of categories of vulnerable groups such as those with addictions, the homeless, those who are at risk from abuse, young people, and so on.

The next slide is a case study for how the more frequent payments might work. There are many different types of household, but we have taken one as an example. It is for a family with three disabled children. Both partners have a limited work capability and both are unemployed. The table on page 7 gives a breakdown of the sum that they would expect to receive and how the more frequent payment would work. The tables shows the family receiving the standard allowance for a couple over 25 of £489 per month: a housing element; a child element; a disabled child element; and a limited capability for work element. That comes to a maximum UC entitlement for that family of £2,567·30. In this case, there are no deductions for capital or the earnings disregard or taper. Therefore, the total amount that they would receive remains £2,567·30. A housing element has to be taken from that total, as that money has to be paid directly, and the remaining amount would be split into bi-monthly payments. In this case, one of the partners is also in receipt of disability living allowance (DLA), which means that the benefit cap does not apply. It depends on what rate of DLA they receive, but they could be in receipt of an extra £500 a month.

Page 8 of the presentation deals with split payments. The draft proposal of the oversight board is that split payments could be made to any claimant on request where they do not get access to universal credit, often because of an abusive relationship. The Department would need to determine how that split payment would be made, and it will be on the basis of the number of children in the household and whether one or other of the partners received any income. We want to make this as simple as possible. To avoid confusion, we suggest that if a split payment is made between the parties, they should also have the same frequency of payment. Therefore, if a split payment was requested and one partner requested or was entitled to a more frequent payment, they would both get the bi-monthly payment. The same would be true of the opt-out. The proposal is that you would not be able to opt out of a direct payment to a landlord if you received a split payment.

The case study on page 9 is for a family of two children with one parent earning. As with the previous example, the couple receive the standard allowance for a couple over 25. There is also a child element and a housing element, all of which total £1,331. There is a reduction because of earnings and that calculation is shown on the right-hand side of the page. The adjusted UC entitlement is £761. The housing element comes out of that, and we have highlighted the impact of underoccupancy for one extra bedroom. The rent is £400 per month, but the housing element paid is £344. The last table at the bottom of the page shows the housing element subtracted from the adjusted universal credit payment of £761 as it is paid directly to the landlord. That leaves £417. In this scenario, because the woman is the main carer, she would receive the money, and the father is also in receipt of earnings. The amount that would be split between the partners would depend on the circumstances.

The third criterion is to do with the opt-out of the housing element. It has been suggested that it should be open to those who are in receipt of full or part housing element payments. Certain groups would not be eligible, such as those with a history of arrears.

It is likely that this would be taken up by those who are in receipt of a part payment, simply because they think that that is more straightforward because it means that they can make a contribution themselves and can decide to take responsibility for both elements and make the one payment to the landlord. That is likely to happen at the higher income levels in the universal credit cohort.

The example of that is a couple in private rented accommodation for which the rent is £400 a month. The housing entitlement is £345·97 and one of the partners is working and is in receipt of £1,100 a month. The total maximum universal credit entitlement is £835 less an amount for the earnings of £642, which leaves an adjusted amount of £192. That would be put together with the partner's wages to pay the cost of the accommodation.

In developing all those criteria in draft, we have to be conscious that the IT needs to support whatever policies are decided on. We are working closely with DWP. Tommy said that there have been a number of reviews in DWP and one is ongoing at the moment with a view to developing a blueprint that will determine the roll-out of universal credit in DWP beyond the pathfinder project. We will be conscious of that because it will determine when the universal credit IT build for the next phases — the phases that we will be involved in — will commence.

Those are the proposed draft criteria. We are conscious that the IT needs to work alongside that.

The Chairperson: OK, thank you.

Mr Copeland: Thank you for making something that is very confusing slightly less confusing.

On page 3 of your presentation, there is a proposal for more frequent payments to be made available to those who have no income from paid work. Would work that is currently permitted under the employment and support allowance (ESA) support group, for example, be counted as income from paid work for the purposes of this deliberation?

I know that ESA will go with the rest of them, but under that regime, a person in receipt of support group payments, as well as others, is allowed to derive minimum wage for 16 hours a week. Would that be counted as income from paid work and preclude them from that proposal?

I am interested in the discussion about the difference between income and low pay because those two things are slightly different. If I understood you correctly, low pay would be defined there or thereabouts at the current minimum wage. Is that correct?

Dr Sullivan: The threshold for what is considered to be low pay and, therefore, the level at which a more frequent payment could be made has yet to be determined. It will be given various bandings.

Mr Copeland: Will permitted work pertain into the introduction of universal credit?

Dr Sullivan: Universal credit changes the landscape.

Mr Copeland: I know that it does.

Dr Sullivan: There is no longer the threshold of 16 hours. Universal credit is reduced if you take on more hours and you are able to work.

Mr Copeland: Yes, but what about permitted work itself? Will someone in receipt of universal credit be able, in certain circumstances, to undertake any work that is not counted as income? At present, someone undertaking permitted work does not find themselves being assessed for tax or anything else and it allows people to —

Mr O'Reilly: The reason for having permitted work is to allow people to continue to have eligibility for the benefit. Universal credit takes those benefits away. Therefore, regardless of whether you are in work or out of work, it is about the total income that comes into a house. The permitted work level no longer applies in those circumstances.

Mr Copeland: OK.

Mr Campbell: That is a useful explanation. I have just a couple of things to ask, so that I am clear. I have a couple of questions about pages 9 and 11. In both examples, income is based at £1,100. Is that based upon an average wage netted down? How did you come by £1,100?

Dr Sullivan: It is just a wee example of what someone might receive. If your income increases, your universal credit diminishes.

Mr Campbell: I understand that, but for the purposes of this as a case study, was £1,100 selected for any particular reason?

Dr Sullivan: No, I do not believe so; we just thought that that might be typical.

Mr Campbell: Is that an average wage netted down, roughly?

Mr O'Reilly: The average wage in Northern Ireland, for an average working family household, is just over £22,500 a year. That is just under £2,000. When you take tax off that, the sum remaining would probably not be far away from £1,100.

Mr Campbell: Right. OK. Let us turn to page 9. That is an average or roughly an average wage for a family with two children, although for every person, group or family, circumstances will differ. However, we are trying to get a rough idea of a case study applicable to a sizeable number of people rather than to a minuscule number. This is probably a reasonable stab at it. However, I would like to know the bottom line. When we come down to an adjusted universal credit payment of £761, are you saying that the £56 bedroom tax or underoccupancy tax is payable out of that? Is that correct?

Dr Sullivan: Yes. The entitlement is reduced from £400, which is the cost of the accommodation, but, because of the underoccupancy, the sum of money received for the housing element is £344.

Mr Campbell: Yes. It is less that. If you were to take the exact same circumstances and the exact same income into the current pre-UC introduction what would the figures be?

Dr Sullivan: I do not have them in front of me.

Mr Campbell: Perhaps we could get them at some point so that we can see a reasonable, average example and the breakdown of what a family would be left with, compared to the current position.

Dr Sullivan: You could do some before-and-after calculations.

Mr Campbell: Can the same be done on page 11, which is probably another atypical example? It is just so that we can have a before-and-after picture. That is all.

Mr Brady: Thank you very much for the presentation. You can see how this has made a very complex system so much simpler. It just jumps out at you, you know? However, that is beside the point. Let us turn to page 12 of the presentation, "IT assumptions". It reads:

> *"There is currently a 12 week review ongoing in DWP to re-prioritise the IT development."*

Does that mean that it is behind schedule?

Dr Sullivan: No. It means that they concentrated on pathfinder, and that pathfinder in DWP is due to start a week on Monday. Then they will look at how they will roll out the other phases. We need to engage with them on that.

Mr Brady: Can we assume that the IT system is up-to-speed, in the sense that, when all this proposed roll-out is to happen, the IT system will be fit for purpose?

Dr Sullivan: We are still working on the basis that it will be ready, with the Minister's agreement with Lord Freud —

Mr Brady: It is just that it said "IT assumptions", which would indicate that there is still a way to go.

Dr Sullivan: The work has not yet been completed.

Mr Brady: The other thing, just in finishing, is this bolt-on to the core universal credit IT system. Is that like an adjunct?

Mr O'Reilly: In a sense, what we have now is a UK-wide system. We use the term "UK-wide" because Northern Ireland is buying into it, under the arrangements that we have for supplying the social security system. That system is set up under the legislation that has been developed by DWP in Great Britain. Therefore, with regard to single-household payments, multi-payments and non-direct payments to landlords, those are the arrangements that apply across the water. Northern Ireland has secured IT flexibilities. Since we cannot change the UK-wide system, we have to develop a system that will integrate with it as far as possible. In a sense, it will sit beside it and take the Northern Ireland cases and do whatever flexibilities are agreed in Northern Ireland to make it work. That is what we are trying to do in defining the criteria to build into the IT system. We describe it as a bolt-on in the sense that it links in and we will try to integrate it as much as possible, and we are doing that for Northern Ireland rather than all the UK.

Mr Brady: If we develop our own systems for split payments and all of that, presumably it will be possible to integrate the IT system into the mainframe system to facilitate changes that may happen here.

Mr O'Reilly: We are trying to enable people on the universal credit system to put in their details, and the system will calculate, in the way that Colin explained, what they are entitled to. The figure will come out the other end, and, at that point, it will fall into the Northern Ireland system and we will do the split into twice-monthly payments.

Mr Brady: I am really asking whether it is possible to integrate those changes.

Mr O'Reilly: That is what we are working to bring about.

Mr Brady: There may be other changes; might it be possible to integrate those into the system?

Mr O'Reilly: Yes, it may be. That is the discussion that we are having but we have not bottomed out all of it.

Mr Anderson: Thank you, gentlemen, for your presentation. We talk about the frequency of payments being twice-monthly. I want clarification on how we will define "the low paid", as I know that that has yet to be defined. However, given the fluctuating aspect of this, would the idea be to take the average pay for those who get overtime bonuses and things? Or would it be straightforward and they would qualify for twice-monthly payments based on their basic pay? I ask because many working people build up their pay with overtime and everything. Will you be looking at basic or their average pay including all allowances?

Dr Sullivan: To be honest, we have not worked through that in great detail. That is a proposal, but it is recognised that those with fluctuating earnings and the self-employed could create issues for us.

Mr Anderson: I see issues arising as to how this will be defined. It may be that many such people are taking home fairly good pay that is well above low-paid income, even though they could fall into the low-income payment. So there is a bit of work to be done there. I can see that it may be easy to get round but could cause some problems.

Dr Sullivan: The proposition on page 6 creates some challenges for us in defining some of those elements.

Mr O'Reilly: When we talk about twice-monthly payments, there is also the issue that, under current arrangements, your eligibility and benefit entitlement are determined and that is what you get every fortnight, right through. Under universal credit, that changes monthly, depending on your earnings in the previous month. Therefore, we will not be able to say, "You are getting £1,000 from universal credit; therefore, you get £500 after the first fortnight and £500 later". That is because we will have to wait to see how much you earned in the previous month; it is real-time information (RTI) that works on the basis of overtime. There will almost be the concept of a "safe" payment: the middle payment will be a "safe" payment to give you sufficient moneys to allow you to run your life, but you may get some more at the end of the month. There will be variation in the twice-monthly payment, simply because of the flow of information that comes into the system.

Mr Anderson: Will that information be reviewed on a rolling basis every month?

Mr O'Reilly: Yes. From 6 April this year, employers have had to implement a new system for Revenue and Customs called real-time information. Every pay check is now logged onto the HMRC system, whereas, until this year, employers simply had to wait until the end of the year to log on for your tax returns. They now do that monthly or weekly, so the system now regularly controls all that information. The plan is that that will now flow over into universal credit, thereby linking the tax and benefit systems.

Mr Anderson: Therefore, this will be as good as the system is. Does it all depend on the system?

Mr O'Reilly: Yes. The RTI system is fully tested and in operation. The universal credit system moves to pathfinder this month; it will be rolled out over the next nine months and will operate fully for jobseeker's allowance by April next year.

Mr F McCann: The question that Sydney asked is not only relevant but a very important question for many people. We need as accurate information as possible, because a whole band of low earners out there rely on that. When you spoke earlier, Colin, I did not know whether you were talking about a ceiling and what people could earn before universal credit kicks in. We need an accurate reflection of what will happen when, for example, somebody on the minimum wage earns overtime or earns money in some other job. Will that affect it? We could find ourselves inundated by people asking for information, and we need to be in a position to give it.

I have a couple of other questions. The example on page 7 of the annex to your briefing paper is about Pauline and Mark, who are 38 years of age. Mickey says that you would think that I knew her. *[Laughter.]* It gives a breakdown of their universal credit assessment. However, all of that is based on the fact that they are getting DLA. There is an opinion that the purpose of changing DLA to the personal independence payment (PIP) is to reduce the number of people who are on DLA. It could be as much as 20% or more. Pauline could find herself in for a shock, because if she is reviewed and loses the DLA, she loses her transitional protection as far as DLA is concerned. Is that right?

Dr Sullivan: The DLA is just an example.

Mr F McCann: If Pauline is no longer in receipt of DLA, she loses that transitional protection.

Dr Sullivan: The two are unrelated. Transitional protection is linked to universal credit.

Mr F McCann: Let me put it another way. The cap is protected because Pauline is on DLA, and that protection will no longer be there.

Dr Sullivan: That is right.

Mr F McCann: Therefore, if there is a 20% reduction in the number of people getting DLA, when PIP eventually comes in during the reviews, 20% of people will no longer have the protection of not being affected by the cap.

Mr O'Reilly: The benefit cap does not apply to the 20% of people — the figure that we published based on the 180 samples — because they are receiving DLA. If they are no longer receiving DLA, we will see whether they are receiving more than £25,000 in benefits. DLA will not count then. However, if they are receiving more than £25,000 in benefits, the cap will apply.

Mr F McCann: That is what I am trying to find out.

Mr O'Reilly: Using those same figures, we think that it will apply to around 620 families in Northern Ireland.

Mr F McCann: This is the big lie in the whole thing. It might be 620 families now, but if 20% lose their DLA, that number will increase significantly. Is that not right?

Mr O'Reilly: We have not done that cross-correlation yet.

Mr F McCann: All of this is based on the supposition that it will work. The figure of 620 has the possibility of increasing significantly if 20% of the people in receipt of DLA lose that.

Dr Sullivan: It depends on the limit. The benefit cap is set at £25,000, as Tommy said. The case study highlights that the numbers will be limited, because we have had to construct a case study with three disabled children and both partners on the work capability assessment, and it could get to the point at which the benefit cap applies if DLA is not there.

Mr F McCann: I deal with people who have three disabled children.

Dr Sullivan: I am just highlighting the percentages and the numbers. It is a relatively small percentage, as opposed to the 20%.

Mr F McCann: It states here that the benefit cap does not apply. We have been told that 620 people will be affected by the benefit cap. If you are in receipt of DLA and have four, five or six children, some of whom are on DLA, the cap does not kick in. In two years' time, when this comes in and you are reviewed and lose your right to DLA, the cap kicks in. Is that right? That is the question that I am asking.

Dr Sullivan: If you are in receipt of above £25,000.

Mr F McCann: The cap kicks in. Is that what you are saying?

Mr O'Reilly: If you are receiving more than £25,000.

Mr F McCann: You cannot talk around this. I am only asking a question.

It seems to confuse things that there is a list of people who could be excluded from fortnightly payment. I cannot understand why you cannot just say that everybody will have a fortnightly payment unless they opt out. There are probably single people and couples who get benefit but do not fit that criteria. Many people will have a good week and a bad week. Some people will have a good week and three bad weeks. Everybody should be given the option of being paid fortnightly unless they opt out. I actually thought that that was what is going to happen.

Mr O'Reilly: Fra, what we are trying to do at the moment is listen to what people are saying to us about options. We are developing options. The current social security system, in protecting the people who most need the money and the most vulnerable, pays fortnightly. There are lots of working people who are paid monthly, so the tax credit system fits in with their lives. You could put the two together, but we are saying that there is not a one-size-fits-all approach.

The vast majority of people in Northern Ireland who are in work are paid on a monthly basis. When people are paid fortnightly, there is a poverty premium that goes alongside that. The policy intent is to try to find a way that ensures that we do not create barriers to people going to work. We recognise that there are challenges in that for people. We are trying to do a consultation exercise to understand who needs to be paid fortnightly, and that is part of what we are involved in at the moment. What we have presented today is an initial list. I hear what you say that it might be better just to pay everyone fortnightly. There is an argument that, administratively, it could be cheaper to do it that way. That is a discussion that we are having, Fra. We have not come to any conclusions.

Mr F McCann: OK, thanks.

Mr Copeland: Thanks, Tommy. I have just a small point, although I am not sure whether you can comment on it. Do these changes have any implications for moneys paid by parents without care and moneys received by parents with care under the child maintenance and enforcement division arrangements?

Mr O'Reilly: I am not clear on that, but we will come back to you.

Mr Copeland: There was a differential between pay and income. A father who is absent and in a new relationship could be paying towards the upkeep of the children whom he has to his former partner. He may well have a room in his home to allow those children to come to stay. That father could be faced with a reduction in housing benefit, if he is in receipt of housing benefit. He could be paying twice.

Mr O'Reilly: I will come back to you on those two points. The first point is about the mother who is receiving income from a separate —

Mr Copeland: Well, not necessarily the mother, but the parent with care.

Mr O'Reilly: The question is this: if whichever parent has care responsibilities is receiving income from the non-resident parent, does that count as income? The second question is this: does the bedroom tax, or the underoccupancy provision, apply in those circumstances?

Mr Copeland: It is not even that. It is if the money that has been deducted at source affects what is considered to be his or her income, whether that is the parent who is paying it or the one who is receiving it.

Mr O'Reilly: We will come back to you on that.

Mr F McCann: I see a figure there of £400 for housing costs. Where did that average came from? Moreover, the shared room allowance for under-35s, and what is called the bedroom tax, initially impacts only on people who are in social housing. At what stage will over-35s in the private rented sector be affected?

Mr O'Reilly: The underoccupancy provisions are already in place in the private sector.

Mr F McCann: For over-35s in the private rented sector?

Mr O'Reilly: Yes, they are already in place for everyone.

Mr F McCann: Where I live, average housing costs are between £500 and £575 a month. The average stated there does not reflect —

Mr O'Reilly: Sorry, Fra, but that £400 is only an illustrative figure. We can put in those figures as well.

Mr F McCann: Once you take the top-up that people have to pay in the private rented sector and the deduction for the bedroom tax, people are paying over half the rent, and people on benefit will not be able to cope with doing that.

The Chairperson: No other member has indicated to speak. Tommy, thank you for your presentation and for your responses to members' questions.