

Implementing Universal Credit

Will the reforms improve the
service for users?

Amy Tarr

Dan Finn

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Inclusion

Third Floor

89 Albert Embankment

London

SE1 7TP

Tel: 020 7582 7221

Email: info@cesi.org.uk

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Will Universal Credit (UC) improve the service user's experience of the social security system by addressing complexity and will benefit reform be supported by quality employment support?

The coalition government has committed itself to a sweeping programme of welfare reform. Central to this is UC, which will replace the current system of means-tested benefits and tax credits with a single benefit and entirely new delivery systems. Building on the findings of *Inclusion's* earlier report for the *Joseph Rowntree Foundation*, which identified ways in which problems in the design and administration of the benefits and tax credits system affected service users, this research combined a rapid review of recent reports and research findings relevant to UC implementation and interviews with key stakeholders.

The report explores:

- The extent to which UC will address complexity and create a simpler social security system for service users and how the localisation of benefits may affect this.
- The impact of UC on work incentives and the quality of employment programme support.
- The conditionality regime, balance of personal responsibility and the 'user voice' in the new system.

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About the authors

Amy Tarr is an Associate at the Centre for Social and Economic Inclusion and has previously been a Committee Specialist to the House of Commons Work and Pensions Select Committee.

Dan Finn is Professor of Social Inclusion at the University of Portsmouth and Associate Research Director at the Centre for Social and Economic Inclusion.

List of acronyms

CTB	Council Tax Benefit
DWP	Department for Work and Pensions
ESA	Employment Support Allowance
HB	Housing Benefit
HMRC	Her Majesty's Revenue and Customs
IS	Income Support
IT	Information technology
JCP	Jobcentre Plus
JSA	Jobseeker's Allowance
LGA	Local Government Association
LITRG	Low Incomes Tax Reform Group of The Chartered Institute of Taxation
NAO	National Audit Office
ONS	Office for National Statistics
PIP	Personal Independence Payment
RTI	Real time information
SSAC	Social Security Advisory Committee
UC	Universal Credit
WBG	Women's Budget Group
WP	Work Programme

Executive summary

The coalition government will introduce significant reforms to the benefits system, alongside already implemented changes to benefit entitlements and welfare to work services. Universal Credit (UC) is designed to replace the current system of means-tested benefits and tax credits for those on low incomes in or out of work with a single benefit and entirely new delivery systems.

It is anticipated that a lower effective withdrawal rate for people moving into work will improve work incentives. As a single benefit, paid to households on a monthly basis – predominantly managed through digital channels – UC should also reduce administrative complexity. Benefit reforms will be complemented by employment support offered by Jobcentre Plus (JCP) and employment providers on the Work Programme (WP), as well as a new conditionality regime that extends mandatory employment requirements to some claimants who are in work.

This report builds on the findings of *Inclusion's* earlier report for the Joseph Rowntree Foundation, which identified how problems in the design and administration of the benefits and tax credits system affected service users (Finn *et al.*, 2008). The research comprised a rapid review of recent reports and research findings relevant to UC implementation and interviews with key stakeholders, including representatives from the Department for Work and Pensions (DWP), as well as delivery and advice agencies.

The evidence suggests that there is considerable support among service users and stakeholder organisations for the principles of reform. The prospect of a simplified system that offers improved work incentives has been welcomed and viewed as a positive change that could address some of the key flaws in the existing system. Nonetheless, many service users and their representatives are unconvinced that the fundamental principles of simplification and improved work incentives will be achieved once reforms are implemented. Alongside scepticism about the achievement of broader goals, the literature review and discussions with stakeholders identified key elements of UC implementation where there were risks to service delivery – particularly in terms of accessibility, efficiency, the availability of well-trained staff and the prospect of exclusion for more vulnerable service users. The following sections consider these risks and identify some steps that, if implemented, could mitigate the impact they might otherwise have on service users.

Addressing concerns about Information Technology and the risks of system failure

The Information Technology (IT) for UC is being developed using agile methods of development that take an incremental approach to design. The system relies on real time information collected by Her Majesty's Revenue and Customs (HMRC) that should allow DWP to calculate UC payments without requiring claimants to supply employment or pension income information (though changes of circumstances will still need to be communicated). DWP is confident that systems will be ready in time for implementation, despite concerns among IT experts that the timetable is unrealistic. At this stage it is unclear what will happen if deadlines are not met or if complications arise during implementation but the consequences of system failure would be serious for UC recipients. There are worrying past examples of successive governments' track records on large-scale IT programmes and major risks should be anticipated and avoided if service users are to be spared the possibility of financial hardship caused by payment delays. DWP has launched pathfinders to test its systems and the department says it will put in place 'robust' standby arrangements for IT failures. However, there is still very limited publically available information on how the IT will operate and what will happen if things go wrong; DWP should address this and provide reassurance on how the system will operate, what training staff will undergo to understand it, and what processes will be in place in case IT systems fail.

Creating an accessible claims process for all

Claimants will make a single application for UC and it is expected that the vast majority of claims, notifications of changes in circumstances and payment checks will be made online using an automated system. While DWP has made progress towards developing a coherent digital strategy it should go further in demonstrating how it will ensure that no service user is excluded. Drawing on the considerable evidence to suggest that certain groups are more likely to be digitally excluded, DWP should learn from the existing evidence on why there is not more digital take up among some groups and develop clear plans to tackle this. In particular, the department should consider what incentives might be used to encourage changes in behaviour that lead to more users' accessing services online.

It will also be important that service users whose claims are not processed and managed electronically have access to face-to-face or telephone support that is as simple, efficient and accessible as that available through digital channels. Local authorities will be expected to provide face-to-face services for those claimants unable to manage their benefit claim electronically but tight deadlines have left only

limited time for these services to be designed and, where services are being piloted, little funding has been made available for service delivery.

Planning for payment changes

The decision to distribute UC at the household level has been criticised for a number of reasons. Organisations have argued that it risks creating an unfair bias against women and this is supported by research showing that male partners are more likely to be the main claimant of core means-tested benefits in a household. The incorporation of payments for children into UC will mean that child-related support will not necessarily be transparent or paid to the main carer, leading to concerns that this assistance may be less likely to reach the children it is meant to support. Furthermore, the shift towards monthly payments has been met with anxiety among service users themselves, who are concerned that the challenge of budgeting on a low income will be very difficult, especially during the transitional stage of UC implementation. If no financial assistance will be available to bridge the gap, it is essential that service users are prepared well in advance for the shift to monthly payments so they can start to make provision for possible shortfalls. If financial assistance will be available, but requires service users to borrow money – through a bridging loan, for example – this may lead to many UC recipients beginning their claim in debt. In this key transitional stage, the government should improve the availability of financial advice and support; the lack of clarity around what this will look like and when services will be established gives much cause for concern.

Risk of eroding simplification measures through localising support

The localisation of major elements of the benefits system will test one of the key principles of UC, simplification, to its limits and risks seriously undermining simplification gains. It appears increasingly that the broader vision for UC has been eroded as incremental decisions through the design process have (arguably inevitably) reintroduced complexity. Localised rebate schemes for council tax and other departmental arrangements for passported benefits are likely to see the single taper rate lost and introduce a further administrative layer for service users. As a plethora of different local arrangements are developed for the replacement schemes for Council Tax Benefit, and the community care grants and emergency crisis loans elements of the Social Fund, local JCP staff, intermediaries and service users will need to assimilate how national and local arrangements interact with one another and calculate how this affects the complexity of the system and incentives to work. A set of national minimum standards would help to ensure a guaranteed level of service for users, while still allowing for local flexibility in provision. Although there

can be some benefits to localising elements of financial support, the government should commit itself to reviewing the impact that this has on the key aims of UC and, if the evidence suggests the main benefits of UC have not been realised, localisation – particularly of Council Tax Benefit – should be reconsidered and, if necessary, reversed.

Improving the financial incentive to work and providing quality employment services

As one of the central tenets of UC, making work pay will be a key determinant of success for the government's welfare reform plans. While the new system should encourage more people to undertake 'mini-jobs', the differentiated earnings disregards will be complex to explain and the incentive to work full time increases only marginally for some under UC – and for others it is weaker than in the existing system. Marginal increases in earnings alone have been found to provide insufficient incentive for a person to move into work. Given that other barriers to work, particularly childcare costs, are likely to persist, the improved financial benefits of working while claiming UC are unlikely to materialise for some groups. This is particularly the case for second earners, many of whom will face weaker incentives than exist in the current system.

Alongside the implementation of UC, the DWP has committed itself to transforming JCP operations, modernising the way it delivers its services and giving advisers the discretion to assess service users' needs and to offer the support they think most appropriate. However, for increased flexibility and adviser discretion to achieve the goal of more personalised service provision, JCP must work to overcome the common complaint that support is limited and options are inadequately communicated. As more services are delivered using digital channels, it will become increasingly important that provision is accessible and information is comprehensive. The expectation is that greater investment in digital services in some areas will allow better tailoring of face-to-face support; but the DWP must learn from existing research that has demonstrated how increased flexibility does not automatically lead to more personalised service delivery.

JCP staff must be ready and equipped to deliver support before UC is implemented. Expertise must be developed on both the details of reform and how employment support should be designed to support the aims of UC best. Employment provision needs to be focused on maximising the benefits of reform and appropriate advice and support should be available to ensure that difficulties with a claim or UC payment do not disincentivise work.

A network of WP providers delivers provision across Great Britain for those service users who require more intensive employment support. The current WP model was not designed to support employment of fewer than 16 hours – which UC is supposed to incentivise; and while sustainment fees reward providers when someone stays in a job, they do not encourage providers to help a person to progress – despite the fact that in-work conditionality will be an integral part of UC. There is limited time to address these issues and providers need clarity on how these elements of programme design will be amended before the introduction of UC.

WP providers will have an important role to play in helping service users to manage the transition to the UC regime and explain changes to work incentives. The introduction of the 'claimant commitment' and increased sanctions also have implications for the role providers already play in explaining and 'policing' employment requirements that will now include rules on in-work conditionality. There is a risk of confusion caused by the overlapping responsibilities of JCP and providers, both of whom may seek to pursue different approaches to employment assistance and relevant activities. The introduction of UC represents an opportunity for the department to clarify the status of the job search and work activity requirements included in a WP action plan and agreed with a provider, and how this relates to immediate job search and availability requirements that will be contained in the 'claimant commitment'.

Universal Credit and self-employment

DWP estimates there will be around 600,000 households in the UK on UC with at least one individual whose main employment is self-employment. The draft UC regulations outline a different set of rules for self-employed recipients on reporting income to HMRC. There are a number of major concerns among experts and representative bodies that UC could actually disincentivise individuals from starting their own businesses because of the administrative burdens that will be placed on them. It will be critical that the impact of the new regulations on numbers choosing to set up an enterprise are monitored and the government should look for ways in which existing programmes, such as the New Enterprise Allowance scheme, can provide assistance to self-employed service users to overcome the pressures of additional administrative burdens.

Balancing service users' rights with their new responsibilities

The move towards a tougher sanctions regime and the introduction of in-work conditionality should be accompanied by sufficient and appropriate support to help

people meet the terms of their entitlement and a fair and efficient system of redress. Getting this balance right will require easily accessible channels for the user voice to be heard, and the DWP should not underestimate the value of user feedback as a tool for improving service delivery and evaluating the success of UC implementation. The DWP Customer Charter will remain in place but there is a case for appointing a far more visible ombudsman for the benefits and employment services system to whom complaints about service delivery and quality can be addressed and who can undertake an independent assessment of how well the balance between responsibilities and service user rights is being met.

1 Introduction

Successive UK governments have acknowledged that the social security system in Great Britain has grown to create a complex structure of overlapping entitlements with different rules and eligibility criteria. Navigating this elaborate system can be difficult for service users because of the accompanying long and detailed claim forms, ambiguously written award letters, and opaque rules and regulations governing entitlements and changes in circumstances. From complexity, dysfunction arises; creating a fertile ground for error and fraud that is costly to the public purse and that can lead to unnecessary financial hardship among recipients who must repay benefits they have wrongly received (the Department for Work and Pensions (DWP) has estimated that £2.4 billion of total benefits expenditure was overpaid and £1.3 billion underpaid in 2010–11 alone). Complex rules and interactions between benefits have also weakened work incentives with high marginal deduction rates that discourage benefit claimants from entering the labour market or, once in employment, from increasing their working hours.

The government has committed itself to tackling complexity and work disincentives by undertaking a sweeping programme of reform to the benefits system. Central to this is Universal Credit (UC), which will replace current means-tested benefits and tax credits for those on low incomes in or out of work with a single benefit and entirely new delivery systems.

The government anticipates that UC will improve work incentives by reducing the effective withdrawal rate of benefits for many people when they start work and make the system simpler to administer and more transparent for service users. As a single benefit, paid to households on a monthly basis and predominantly managed through digital channels, UC should eliminate the requirement for service users to deal with multiple agencies. The government also intends to redefine personal responsibility by introducing a conditionality regime that requires claimants to increase their hours or pay and reduce their income from benefits.

The government's efforts to decrease worklessness through benefit reform will be supported by a reconfigured Jobcentre Plus (JCP) and its Work Programme (WP), which has replaced most employment programmes for long-term unemployed people and people with health conditions. Operating across 18 Contract Package Areas, the WP uses a payment by results model, which incentivises providers to support participants into sustained employment and offers higher rewards for supporting harder to help claimant groups.

The policy rationale behind UC and the proposed changes to the delivery systems for benefits and employment services are welcome. Simplification and improvements to work incentives could help to address some of the problems raised by service users in relation to the current benefits system. In 2008, the Joseph Rowntree Foundation (JRF) published a report prepared by *Inclusion on Problems in the delivery of benefits, tax credits and employment services*, which identified flaws in the design and administration of benefits and tax credits and proposed solutions based on service user feedback on what works in delivery (Finn *et al.*, 2008). The research highlighted how systemic failures created barriers to effective service delivery including the use of complicated forms, poor quality written correspondence and the need to repeat identical information to multiple agencies. Administrative error was exacerbated by the complex nature of the means-tested benefits and tax credits system in particular, which too often led to payment delays, incorrect calculations of entitlement and information being lost. Service users wanted a system that was less complex and delivered by staff with appropriate and sufficient training. They valued employment assistance that was personalised and a conditionality regime that reflected a fair balance of rights and responsibilities.

The report recommended greater strategic coherence between Her Majesty's Revenue and Customs (HMRC) and the DWP to ameliorate the problems caused by cross-system interactions and rules. It emphasised the importance of retaining face-to-face services, particularly for vulnerable users, while also developing a digital inclusion strategy that would facilitate online access. Alongside improvements to design and administration, the importance of increasing service user engagement was underlined. Highlighting the benefits of user involvement and the necessity of fair complaints and redress systems, the report presented a strong case for increasing user voice in this policy area.

The report acknowledged the efforts of the previous Labour government to reduce complexity and improve service delivery through, for example, the work of the 'Benefits Simplification Unit', the testing of the 'Tell Us Once' service, the development of e-channels, and related reforms to the tax credit system. Unfortunately it is not clear that the lessons from these experiences and from the recommendations and findings of earlier Select Committee and National Audit Office (NAO) inquiries into benefit design and reform have been fully reflected in the design of UC.

This report builds on *Inclusion's* 2008 research and examines UC implementation from the service user perspective; that is, those individuals who will interact with government agencies involved in the delivery of UC, the Council Tax Benefit (CTB) replacement schemes, or new localised elements of the replacement scheme for the Social Fund. The report considers the extent to which key features of the design and

administration of UC address previously identified problems with the delivery of the benefits and tax credit system particularly in terms of the government's main policy objectives of reform: simplification, making work pay and encouraging personal responsibility. It does not address issues around the adequacy of benefit payments, which is itself of critical importance to service users, nor does it consider the distributional consequences of the reforms (for this see Brewer *et al.*, 2011; Royston, 2012).

The research combined a rapid review of recent reports and research findings relevant to UC implementation and interviews with key stakeholders, including representatives from DWP, as well as delivery and advice agencies. There was limited time to consider changes in other countries that have implemented analogous reforms in their benefit systems, such as Germany, France and Austria (albeit that the Organisation for Economic Co-operation and Development has noted that, prior to UC, no member country had as yet sought to fully implement the 'radical option' of a single working age benefit (OECD, 2010)). Nevertheless, in future there would be added value from a more in-depth comparative consideration of any lessons from the design, implementation and impact of these reforms.

2 An overview of Universal Credit

Over four years, UC will replace the majority of means-tested benefits and tax credits for working age claimants. The reforms will simplify the system by integrating different payments but many complex entitlement rules will remain and contribution-based Jobseeker's Allowance (JSA) and Employment and Support Allowance (ESA) will continue to be paid separately.

Initial pathfinders will operate in selected areas from April 2013 and between October 2013 and April 2014, 500,000 new claimants of income-based JSA and ESA, Income Support (IS), Housing Benefit (HB) and Tax Credits will be treated as claims for UC. At the same time, another half a million existing claimants and their families will be transferred to the new credit when their circumstances change significantly, for instance if they get a job or have another child. From April 2014, a further 3.5 million claimants and their families will move to UC. And from the end of 2015 to the end of 2017 the remaining three million people will transfer, focusing on HB claimants (DWP, 2011b).

CTB will not be included in UC but will instead be abolished (and funding cut by 10 per cent); support for council tax payments will instead be localised, with local authorities in England and the devolved administrations in Scotland and Wales designing their own systems and entitlement rules.¹ Similarly, those Social Fund elements that can be automated, such as budgeting loans and alignment crisis loans, will become part of UC. It is intended that the passported benefits system (including free school meals and health benefits such as free prescriptions) will be reformed so as to gradually withdraw entitlements as earnings rise (DWP, 2012h) but final decisions have yet to be announced on the exact arrangements other departments will introduce for passported benefits.

The scale of reform and the timetable for introduction of UC are ambitious. DWP estimates that, in 2011–12, expenditure on income-related benefits will be £48.4 billion, equivalent to 3.3 per cent of GDP and income-related benefits will have grown from 11-12 per cent of DWP benefit expenditure in the 1960s to 30 per cent in 2012–13 (DWP, 2012a). Based on current plans, the department forecasts spending of £401 million in 2013 and £317 million in 2014 on the Information Technology (IT), development and implementation of UC (Hansard, 2012b). Once UC is fully implemented it is expected that higher take up rates and lower

¹ Northern Ireland operates a different system of local taxation, which also has an associated system of rebates that is similar to CTB

withdrawal rates will lead to a rise in benefit expenditure of around £2 billion but, in the longer term, the government expects that the simplification measures embedded within UC design will reduce complexity leading to administrative savings of more than £0.5 billion per year (DWP, 2011e, p.2 and p. 6).

2.1 Design and administration

The introduction of UC will involve major reform on two fronts: design and administration. In contrast to most existing income-related income maintenance benefits, UC will be calculated as a household entitlement and will be paid on a monthly, rather than fortnightly, basis. The option of weekly tax credit payment will also be withdrawn. The basic allowance will vary for single people, couples and younger people and, where applicable, payments will be supplemented by additions for housing costs, children, limited capability for work or work related activity and some caring responsibilities.

As part of the government's drive to increase the incentive to work there will be a single withdrawal rate for earnings under UC of around 65 per cent. This will be applied after the deduction of income tax and national insurance contributions, creating a marginal deduction rate for many of around 76 per cent in total. In the current system around 0.5 million individuals in low paid work would lose more than 80 per cent of an increase in their earnings because of higher tax or withdrawn benefits; under UC marginal deduction rates (MDR) should reduce for around 1.2 million individuals and virtually no households should face an MDR of over 80 per cent (DWP, 2011e, p.1). While the withdrawal rate will be lower than that applied under current rules for income replacement means-tested benefits, it will be higher than applies under the existing tax credit rules for those in work. A basic rate taxpayer who is currently on the tax credit taper faces an overall marginal effective tax rate (METR) of 73 per cent, according to the Institute for Fiscal Studies (IFS), the UC withdrawal rate would need to be reduced to 60 per cent, for in-work tax credit recipients to be better off under UC (Brewer *et al.*, 2011).

The single withdrawal rate will be applied to UC once an earnings disregard has been taken into account.² The system of earnings disregards will vary depending on the claimant group and the amount to be disregarded will be reduced to reflect support people receive for rent or mortgage interest support. The removal of the hours rule that currently exists for tax credits should eliminate the disincentive to

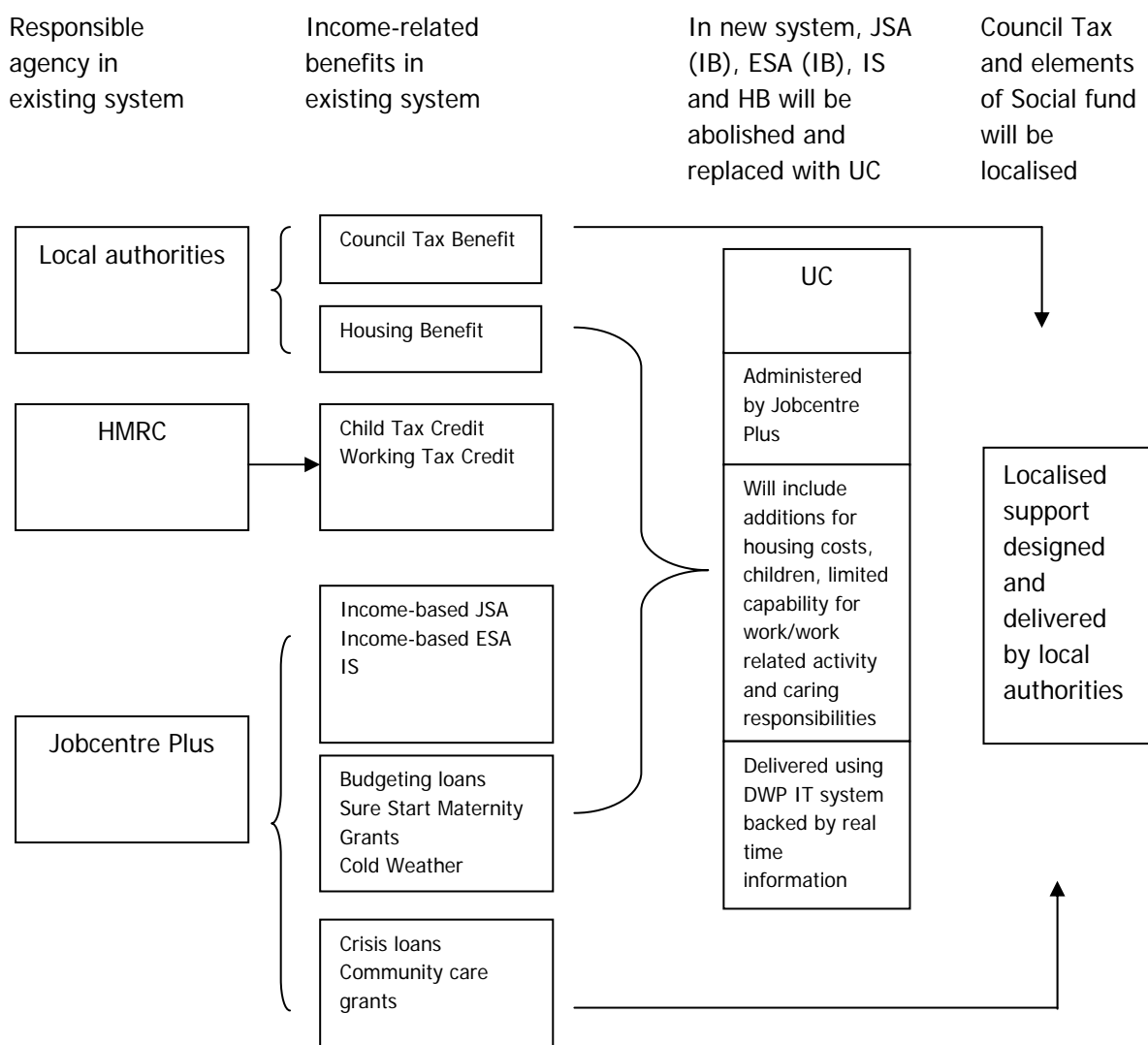
² Note, however, that an existing 'zero earnings rule' will continue in UC which means that owner occupiers will not receive help with their housing costs if they are doing *any* paid work (DWP, 2012d, para 82).

work part time and strengthen the incentive for claimants, particularly lone parents, to take so-called 'mini-jobs' (Casebourne and Finn, 2011). Different amounts will be disregarded from earnings depending on household type (with variations for single people and couples without children; lone parents with one or more children; couples with one or more children; and disabled single people or couples) with actual amounts still to be set. Individuals who do not receive housing support will have a more generous earnings disregard than those who do (DWP, 2012d, para. 137).

The DWP estimates that UC will lift approximately 900,000 people out of poverty through the combined impact of take-up and higher entitlements (DWP, 2012d). Around 2.8 million households will have higher entitlements under UC, with around 80 per cent of these being in the bottom two quintiles (DWP, 2012d). At the same time, approximately two million households will have lower entitlements under UC. Acknowledging this, the government has committed itself to providing a package of transitional protection to ensure there are no cash losers at the point of transition from the current system to UC, providing people's circumstances remain the same. The likelihood of transitional arrangements providing income protection beyond the short-term is, however, limited. DWP research in the early 1990s found that only three per cent of IS claimants had not experienced a change in circumstances that affected their entitlement during the first six months of their claim (Sainsbury *et al.*, 1996).

Currently, overall responsibility for the different income-related benefits is managed by a number of government departments and their administration and delivery are ultimately devolved to their respective delivery agencies. UC will change this by subsuming separate elements of support, previously provided by different agencies through different benefits, into a composite payment delivered by JCP which is now integrated within DWP and no longer has the status of an executive agency (see Figure 2.1).

Figure 2.1: Changes to delivery model of relevant income-related financial support following introduction of UC



Implementing the new administrative system for UC will involve significant training, the development of new, integrated, IT and a coherent and timely stakeholder engagement strategy to ensure that service users are ready and able to access the new benefit and understand how system change affects their experiences of the benefit system and their entitlements.

Claimants will make a single application for UC and it is expected that the vast majority of claims, notifications of changes in circumstances and payment checks will be done online using an automated system (DWP, 2010b, para. 25,). In most cases, couples must make a joint claim and a single payment will be made to the

nominated recipient (although exceptions will be made in a very limited number of cases).

The Draft Regulations for UC make clear that the default process for claiming will be electronic, unless permission is given for a telephone claim (DWP, 2012i). It is hoped that, over time, the shift to a single application, dealt with by a single agency, and delivered as a single payment to those in and out of work will lead to significant administrative savings and to a reduction in complexity for claimants (DWP, 2011e). In particular, the shift to a digital claims process is expected to create large savings; information from the JSA Online project has demonstrated that the cost of an online JSA claim is almost three times cheaper when compared with a claim taken over the telephone (Hansard, 2011).

The DWP is forecasting to spend £250 million on IT development for UC in the 2012–13 financial year based on current plans (Hansard, 2012a). The IT system is being developed using 'agile methods' that take an incremental approach to system development and involve close collaboration between system developers and the DWP. The department has argued that this incremental approach has allowed it to develop the IT system quickly, reusing existing platforms in order to ensure that the project can be delivered on time for UC implementation (House of Commons Public Accounts Committee, 2011a). However, industry experts have expressed concerns about this method of system development (see below).

The payment system for UC will rely on the successful introduction of the real time information (RTI) system by HMRC. RTI will change the way in which employers tell HMRC about PAYE payments – at the time they are made, instead of waiting until the end of the tax year. RTI will support UC by providing the DWP with up to date information about claimants' earned income, allowing the department to calculate UC payments without the requirement for claimants to supply employment or pension income information. HMRC met its milestone to start its RTI pilot in April 2012 and by the end of July 2012 the system was handing records for 1.8 million employees in 700 PAYE schemes with Ministers confident of ensuring full RTI coverage of employers by October 2013.

2.2 Conditionality

The government intends that UC entitlement rules will increase 'personal responsibility' and claimants may be required to search for work for up to 35 hours per week. The introduction of a new conditionality regime, with different levels of expectation depending on a claimant's personal circumstances is integral to UC design and the government expects the majority of claimants to face more stringent work search and work availability requirements than exist currently. Claimants'

responsibilities will be recorded in their 'claimant commitment' and will be based on which of four conditionality groups an individual is placed in (see Table 2.1).

Table 2.1: Universal Credit conditionality regime

Conditionality group	Criteria	Mandatory requirements
All work-related requirements	Those currently eligible for JSA (including lone parents and couples with children over the age of five)	Look for and be immediately available for any work that pays at least National Minimum Wage and is within 90 minutes of home. Must attend JCP interviews and participate in mandatory employment programmes.
Work-focused interview and work preparation requirement only	Individuals assessed as having limited capability for work (i.e. the work-related activity group of ESA) and lone parents or the lead carer in a couple with a child aged 3 or 4 who are not eligible for the 'work-focused interview requirement only' group	Attend work-focused interviews and take reasonable steps to prepare for work such as undertaking training, work experience or placements or attending a skills assessment
Work-focused interview requirement only	Lone parents or the lead carer in a couple with a child over one but below the prescribed age (to be confirmed but will be between three and five)	Attend periodic interviews to discuss plans to find work (immediately or in the future)
No work-related requirement	Claimants with a disability or health condition that prevents them from working or preparing for work; if they are a Lone parent or lead carer in a couple with a child under the age of one; or if the recipient has intensive and regular caring responsibilities for a severely disabled person	None

The new conditionality regime will apply to claimants of UC both in and out of work with the expectation that, wherever appropriate, claimants should seek to find full-time employment (DWP, 2011f). In the case of joint claims, both partners will have to accept their 'claimant commitment' and fulfil any conditionality requirements – this is currently only the case for joint JSA claims.

2.3 Service users' perceptions of Universal Credit

Many service users have welcomed the principles of UC, in particular the proposition of replacing multiple applications and payments with one unitary benefit. However, DWP research has highlighted a general suspicion of the government's motives for introducing UC, and about whether the change would make people genuinely better off – particularly in the current economic climate (Rotik and Perry, 2011).

The DWP has established a communication and stakeholder engagement team responsible for ensuring that service users and stakeholder groups are kept informed of UC policy developments. The team has hosted events and stakeholder forums across the country, providing opportunities for engagement, including consultation on development and design. The DWP intends to provide appropriate information and guidance for service users before UC implementation in 2013 (DWP, 2011c). While some organisations have acknowledged that DWP has made efforts to establish forums for engagement, Crisis has criticised the department for often not providing interested groups with complete information about elements of reform, largely owing to the tight timescale for UC introduction, and for failing to involve all appropriate stakeholders (Crisis, 2012).

The department has also utilised user-centred design testing to consider 'the needs and behaviours of potential users (current claimants) and administrators (DWP and HMRC staff) of UC' throughout the development of the system (Rotik and Perry, 2012). A number of possible online 'user journeys', as well as both online and offline features, were tested on this basis during the course of the user-centred design programme which ran between March and October 2011. The testing process uncovered a number of potential issues that service users felt they might face once UC is implemented including an increased risk of fraud and error in the digital system, the need for support for those who are not confident with or do not have easy access to the internet, an increased risk of budgeting difficulties owing to new payment arrangements, a resistance to the principles of in-work conditionality and the need for greater employment support for those in work (Rotik and Perry, 2012).

The government faces a communication challenge as it moves forward with its programme of welfare reform and, while it should be commended for establishing a stakeholder engagement process early on, it may not be involving all relevant

stakeholders and it is not clear in what ways it is acting on the feedback it is receiving. Going forward, it will be critical that stakeholders are involved in the production of UC guidance and have clearly signposted channels to provide feedback once UC is introduced.

3 Creating a simpler, more accessible, benefits system for service users

From the user perspective, arguably the most significant administrative issue, leading to the greatest problems in service delivery, has been the frequency of change and the complexity of the existing system of benefits and tax credits. Complexity has been found to negatively impact upon DWP's performance, which also directly affects the claimant experience (NAO, 2005). As a major simplification measure, UC should remedy some of the difficulties caused by complexity by:

- Reducing the number of agencies to which a claimant must apply for financial support;
- Using RTI to calculate entitlements and amend them when a person's earning change;
- Making the claims process easier by extending the scope of digital services;
- Introducing a system of monthly payments to better reflect the payment of wages, thereby smoothing the transition to work.

We consider the validity of proposed simplification measures in turn and the extent to which they are likely to create genuine improvements to service delivery, along with areas where complications might still arise.

It is important to note also that the gains from simplification may also take time to emerge as the DWP will need to continue to administer legacy benefits until full UC implementation in 2017 and time-limited contribution based JSA and ESA benefits will continue in the new system.

3.1 The shift to a single agency model

UC will be administered by JCP, with overall responsibility resting with one department, the DWP. As UC will include a housing element, and will replace tax credits for in-work claimants, this will reduce the number of agencies a service user must apply to (and the number of applications they must make). The DWP will still need to interact with HMRC (which will continue to deal with child benefit, and evidence of entitlement to this is often used to prove responsibility for children) but

this change should significantly simplify the front-end of the administration process for claimants. In principle, the shift towards single-agency delivery is a welcome one, from which service users should benefit and government should make savings. HMRC research has demonstrated that poor communication between different delivery agencies heightens the risk of fraud and error and increases misunderstanding of the system among its users (HMRC, 2010). The creation of a single gateway application process is clearly a positive development; however, it will be important that DWP ensures that the resulting single, integrated, payment model and its affect on vulnerable service users does not lead to new problems arising.

Initial responses from service users to this change have been mixed. Qualitative research with claimants has found that, while the prospect of a 'one-stop-shop' has been viewed favourably, many are nervous about the risks of having all of their benefits combined into one payment, in case system failures lead to payment errors or delays (Rotik and Perry, 2011, p. 17). Such concerns are merited given the problems experienced with previous reforms, especially with tax credits. Mitigating these risks relies much on the successful development and implementation of IT systems to deliver the new benefit and the concerns of a number of organisations and IT industry experts are discussed in the following section.

3.1.1 IT interfaces

The majority of the simplification gains associated with UC are fundamentally to be made in frontline delivery – claimants will deal with a single department, but 'back office' administration will continue to involve multiple agencies and IT systems and various different rules will still exist for different types of claimant. The UC IT system is being built using existing legacy systems and agile methods of development. The Institute for government has praised agile approaches to the development of government IT arguing that that they can

'deliver tremendous advantages over traditionally run IT projects in cost, speed and end results. Owing to their iterative and adaptive nature and focus on user involvement, agile projects characteristically deliver solutions with high user acceptance and are right up to date with the current needs of the business.' (Stephen *et al.*, 2010, p.47)

Agile projects should be modular, iterative, responsive to change and have users at the core (Stephen *et al.*, 2010, p.11). A key advantage of the agile approach should be the speed of development; using a traditional approach, UC systems would not have been ready until 2015, whereas agile methods have allowed the DWP to work to the tighter deadline of 2013 for implementation. Some IT industry specialists, however, have expressed concern that the timetable for development is 'unrealistic

given the number of additional traditional interfaces, in particular the one with HMRC' (Observer, 2012) and DWP's Permanent Secretary has conceded that there exists 'substantial risk' surrounding the timescales for IT development (House of Commons Public Accounts Committee, 2011a, Q.58). Furthermore, in a recent report, the NAO identified criticisms of the agile method for allowing unstructured approaches to development and preventing clear lines of accountability (NAO, 2012b).

The interface with HMRC will be critical, as UC payments will be calculated using data derived from HMRC's RTI system. RTI should improve the operation of PAYE and make information about earnings available more quickly by requiring employers to report employees' income tax and national insurance deductions as they pay them, rather than at year-end. In turn, instances of payments made in error should dramatically reduce, service users should have to complete fewer application forms, and those in work should be able to immediately see the results of working and of increasing or reducing their hours. However, the NAO concluded that the timetable for RTI introduction, which has been driven by the timetable for UC implementation, is 'challenging' and planned processes have been amended to account for the tight timescale (NAO, 2012b, p.25). HMRC had originally intended that employers would give employee information and payments together through the bacs payment system; however, in response to concerns from payroll providers that there would be insufficient time to fully implement the bacs system by October 2013, HMRC has opted for an interim solution where employers send employee information separately from payments (NAO, 2012b, p. 25).

The Public Accounts Committee has also expressed concerns that RTI will significantly increase the amount of PAYE data that is collected but it remains unclear how HMRC will manage this additional data (House of Commons Public Accounts Committee, 2011b, p. 5). The CBI has added its concerns about tight timetables, increased administrative burdens for employers, and the position of the large number of businesses who do not currently use PAYE because they fall under the income tax and national insurance threshold or pay their employees cash and for whom no RTI data will be available (CBI, 2012).

With assessments from both within and outside of the two key departments involved in the implementation of UC highlighting the risks posed by the tight timescale for introduction, questions must be raised about how potential system failures will impact upon the service user. An RTI pilot was launched in April 2012 and over 180,000 employee records had been successfully received by HMRC by July, with hundreds more employers expected to join over the following months. Reassuringly, any implementation issues identified by the pilot have been resolved quickly. The systematic approach the government is taking towards testing its systems before

implementation is the right one. It will be critical for service users that all major risks to IT systems are overcome before the beginning of the UC in April 2013 if payment errors and delays are to be avoided and the potential advantages of frontline delivery by a single agency not undermined. Although the pilot operations will mitigate some of the greatest risks the department should clarify the 'stand by' arrangements it will put in place to ensure claimants are paid if deadlines are not met, or if complications arise once systems are implemented.

The consequences of system failure could be severe for UC recipients. Tight deadlines for system development have led industry experts to doubt the likelihood of programme success and, while the DWP is confident the system will be fully functioning in time for UC's launch, even the Permanent Secretary has acknowledged the very real risks of IT problems. Successive governments' track records on large scale IT programmes has been mixed, with previous major expensive failures in the National Health Service, Fire Control Centres and the Child Support Agency. Given that UC rationalises currently separate support into one financial payment, system failure could lead to financial hardship for significant numbers of service users. The department says it will put in place 'robust' standby arrangements for IT failures but there is very limited publically available information on how the IT will operate and what will happen if things go wrong; DWP should address this and provide reassurance on how the system will operate, what training staff will undergo to understand it, and what processes will be in place in case IT systems fail.

3.1.2 The role of support outside the single agency model

Local authorities

As part of the single benefit/single agency reform programme, working age claimants will get help with eligible rent through UC, rather than HB. As a result, new claims for housing support from those who are out of work will be for UC from October 2013 and from April 2014 for in-work claimants. It is expected that existing recipients will move from HB to UC from October 2013 to October 2017 – from which point, the majority of social housing tenants will receive their HB direct as part of their UC claim.

The abolition of HB will reduce the service delivery role of local authorities – according to some sources, affecting around 20,000 HB staff in administrative, anti-fraud, and other roles (Unison, 2010). Unison has expressed concern that the diminution of local authorities' role will negatively affect service users, as experienced local authority (LA) staff, with local knowledge and expertise, will no longer provide key frontline services (Unison, 2010).

Local authorities will still have a role to play in delivering UC, as it is expected that they will provide face-to-face services for those claimants who are unable to manage their benefit claim electronically. DWP plans to issue a 'National Service Framework' with guidelines on the capacities local authorities will need to have in place. Twelve short LA-led pilots are planned to run from late 2012 through to 2013 to develop the UC face-to-face delivery model to run alongside the standard digital service.

Simplicity for the claimant and working in an integrated way with the DWP, JCP offices, and other partners will be key to successful service delivery. The pilots will seek to examine ways in which local authorities can support more people to access services online in their area and will have three main objectives: reducing the need for mediated support for claimants to use the online service; financial independence via a greater focus on work, and delivering efficiencies (DWP, 2012g).

Despite jointly issuing the prospectus for pilots with the DWP, the Local Government Association (LGA) has warned that the pace of change could still leave the most vulnerable unable to access benefits and services (LGA, 2012). The tight timescales for UC implementation meant that the prospectus for LA applicants was issued just three weeks prior to the deadline for applications. Furthermore, LA representatives have stressed that their face-to-face role needs to be defined as quickly as possible to ensure that there are sufficient numbers of staff with the appropriate skills to provide the support for those who need it (DWP, 2012f).

The prospectus allows considerable scope for local authorities to design their face-to-face services; however the voluntary pilots will not count as a 'New Burden'³, instead the DWP will reimburse additional costs that an authority incurs in running these programmes, such as staff, evaluation, estates changes, and communications (DWP, 2012g).

It will be essential that local authorities identify those elements of service provision that will be particularly beneficial for the most vulnerable service users. Research has highlighted the importance of clear communications for claimants, particularly when service delivery channels undergo significant reform (Finn *et al.*, 2008). Budgeting and money advice should also be an integral part of the face-to-face offer to prevent service users falling into arrears and to assist those currently without access to bank accounts. Local authorities could also play an important role in triaging service users to other intermediary services – this support will be especially important for vulnerable users and minorities who might otherwise struggle to

³ According to guidance, 'a new burden is defined as any policy or initiative which increases the cost of providing local authority services. This includes duties, powers, or any other changes which may place an expectation on local authorities.' (Department for Communities and Local Government, 2011).

access services through telephone or electronic means (Barnard and Pettigrew, 2003).

It will be important that service users whose claims are not processed and managed electronically have access to face-to-face or telephone support that is as simple, efficient and accessible as those available through digital channels. The extremely tight deadline for local authorities to submit their proposals suggests that this may not be the case. Furthermore, it is too early for the government to assume face-to-face alternative routes would only be a temporary requirement, as the prospectus for local authorities seemed to suggest. Face-to-face support may well be required over the longer term and services should be designed and funding packages developed to reflect this. This issue should be revisited once UC has been implemented to assess the quality of alternative provision to online channels and the service user experience of them.

The role of intermediaries

For many service users, contact with delivery organisations is facilitated by intermediaries (such as friends, family members, care workers, advice agencies, and often MPs). Citizens Advice has reported that benefit, tax credit and debt queries account for over two thirds of the issues dealt with by their advisers, highlighting the important role that voluntary sector organisations and advice agencies have to play in supporting vulnerable service users to access financial support and other services (Citizens Advice, 2012). In the current recession, demand for advice has increased at the same time as public expenditure cuts have led to reductions in funding for many organisations. Many advice agencies (and MP's) have expressed concern that demand for advice is likely to grow further still following the introduction of UC, especially during the transitional stage, as service users seek help and support – particularly given that the majority will be expected to access their benefit claim online (see, for example, Age UK, 2011).

The shift to digital delivery will also require changes to the way in which advisers access service user information when supporting them to make a claim. Citizens Advice has reported that secure third party routes currently exist that give advisers access to claim information on behalf of their clients – without requiring clients to provide personal passwords. It is unclear whether these routes, or equivalents, will be available once UC is introduced and it is important that advice agencies are given clarity on this as soon as possible so that they can adjust service delivery plans in time for implementation (Citizens Advice, 2012, p. 21).

Given the vital role that intermediaries will continue to play once UC is introduced, research and monitoring will be required to examine the impact of these major

reforms on the availability of advice and support from organisations outside the public sector delivery model. In our 2008 report, *Inclusion* found that there had been little systematic research into the way that changes in the delivery of benefits and tax credits were shaping the quality and availability of the advice and employment assistance intermediaries are able to offer users – this remains the case. Given the scale of reform and the already increased demand on ancillary services, further work is merited to identify how these pressures affect service users (Finn *et al.*, 2008, p. 57).

It is likely that UC implementation will lead to additional pressures on advice agencies, as more people seek support to understand how to claim, how benefits reform affects their household income and how to challenge decisions. The government has acknowledged the challenge that intermediaries may face and while it has indicated it will fund a 'hot line' for MPs it has yet to agree to what funding will be available to other agencies to support their role. Reaching an agreement on this should be a priority for the DWP to ensure that advice agencies can plan their service provision in advance of an influx of queries to mitigate the risk of service users being unable to access independent advice and support, particularly during the transitional stage of UC implementation.

3.1.3 Digital channel shift

The move towards a digital, self-service, approach to the claims process marks a major shift in the operating model for benefits delivery. The government expects that 'uncertainty will be reduced through the increased transparency of an integrated system so that people will be able to easily view and understand their benefit entitlement managed online' (DWP, 2011g, para. 43). The DWP has made progress towards developing a coherent digital strategy and this should become an ever more important part of the department's business planning once UC has been implemented. Alongside the support that local authorities will provide to those service users who require face-to-face support, JCP will continue to operate a network of 'Digital Champions' across their offices, who act as ambassadors for online services and aim to improve customer confidence in accessing digital services.

In 2008, *Inclusion's* report for the Joseph Rowntree Foundation (JRF) recommended the development of a coherent digital inclusion strategy for reducing the access and cost barriers to benefit claimants, therefore the extension of digital services is welcome (Finn *et al.*, p. 55). However, the DWP must demonstrate that service users have been sufficiently prepared for this shift, and that those who would face difficulties managing their claim online, are given appropriate support from well-trained, knowledgeable, staff or access to alternative channels where necessary.

The DWP's ambitious target is for 80 per cent of JCP customers to deal with their UC claim using digital channels. This is particularly challenging given that in 2011, only 17 per cent managed their claim online (House of Commons Public Accounts Committee, 2011b, p.5). In evidence to the Public Accounts Committee, DWP was unable to provide a sound evidence base for its 80 per cent target but referred to figures which show that 86 per cent of JSA customers indicate they already use the internet and 67 per cent have access in their homes, though only just over 40 per cent are 'ready, willing and able' to use online JSA services (House of Commons Public Accounts Committee, 2011b). The basis for this target is weakened further still by the fact that broader public sector cuts had an impact on the expansion of online services; the NAO recently reported that the Cabinet Office moratorium on IT spend, as a result of the June 2010 budget, had resulted in a delay to the programme to make online or self-service telephony the default contact method for JCP service users (NAO, 2011b).

The scale of the challenge in addressing digital exclusion has been documented in a wealth of recent research. The Office for National Statistics (ONS) figures for the first quarter of 2012 show that the rate of internet use decreases in line with income – of those adults in employment whose gross weekly pay is less than £200, 6.9 per cent (367,000) have never used the internet (ONS, 2012a). Studies have shown there is a statistically significant association between the social disadvantages an individual faces and their inability to access and use digital services (Dutton and Helsper, 2007). Furthermore, research by the Low Incomes Tax Reform Group of The Chartered Institute of Taxation (LITRG) has highlighted correlations between the probabilities of digital exclusion and service user characteristics. They found that, while people with disabilities used the internet for similar purposes to the general population, their usage rates were around 25 per cent lower. For disabled users, having difficulties with vision, hearing, mobility, cognitive processing, or literacy often limited their access to digital services (LITRG, 2012a, p. 19). DWP research has shown that, among claimants, those least likely to be interested in accessing online services were those who were uninterested in finding employment or thought that their health condition prevented them from working (typically receiving IS, IB or ESA) (Adam *et al.*, 2011, p. 2).

Location has also been found to be a significant factor in digital exclusion. Approximately 30 per cent of households in rural areas only have access to slower internet connections and, overall, broadband availability is lower in areas of low population, such as Scotland and Wales, and in many rural areas (Adam *et al.*, p.20). People living in rural areas already face greater difficulties in accessing JCP services compared to people in urban areas, making it increasingly important that barriers to digital access are addressed.

Motivation to use online services is also a critical issue influencing digital service usage. Among those who do not use the internet, research has found that 40 per cent do not do so voluntarily because they fail to see the need or benefit of doing so. The greatest proportion of the population holding that view is older people and those on low incomes (Dutton and Blank, 2011).

Alongside a clear strategy to identify those who are not able or willing to access digital services online, it is important that frontline staff delivering UC are confident using the internet and feel capable of guiding service users through the channel shift. Significant problems were experienced with the customer management IT system introduced in the earlier transition to JCP and research found 'a perception among many staff' that JCP had not invested enough in training so that they could 'cope effectively with the new service delivery channels' and that where staff lacked competence, 'they often also lacked the confidence to actively promote alternative channels' (Hasluck *et al.*, 2005, p.7). More recent DWP research findings suggest that there is still progress to be made in this area with JCP staff found to have varying levels of understanding and confidence using PCs, online services and a range of digital platforms (Adam *et al.*, 2011, p. 2). Some reported not having the confidence to even suggest to claimants that they might try online services; while a number of staff lacked familiarity with the internet more generally, as well as the DirectGov website. Among those who were more resistant to increasing digital services, some believed the channel shift was motivated by the need for greater efficiency savings, rather than improving service delivery and expressed concern that claimants who needed greater levels of support might be marginalised by an extension of online service delivery channels (Adam *et al.*, p. 17).

The importance of resolving issues around digital exclusion, service user willingness to use online channels, and digital competence among staff cannot be underestimated. The Draft Regulations for UC make it clear that online claims and channels will be the only option available unless a service user falls within a class of claims for which telephone applications will be acceptable, such as for ESA and Personal Independence Payment (PIP) (DWP, 2012i). Mandating claimants to manage their claim using electronic means raises important questions around freedom of choice that should be addressed if the user voice is to be adequately accounted for in the development of new delivery channels.

DWP could go further in demonstrating how the digital model and its alternatives will ensure that no service user is excluded because of gaps in service provision. For those claimants for whom digital access will be difficult, either because of digital inexperience or the costs of access – particularly for people who do not have access to a personal computer and/or live in a rural area – alternative channels should be available, both in the early stages of UC implementation and beyond. These

alternatives must be clearly signposted for service users and support should be available to assist those who need it to access them.

The department should also consider what incentives might be used to encourage changes in behaviour that lead to more users accessing services online.

Furthermore, given that two fifths of UK adults now own a smartphone, with the same proportion saying that their phone is the most important device for accessing the internet, DWP should ensure that the UC claims process is smart phone compliant from the outset (Ofcom, 2012). This should also include clear advice about the differential costs that service users may face when using different ways of accessing digital services.

3.2 Monthly benefit, household basis, direct to claimant

The creation of a monthly payment, paid on a household basis, will represent a significant change for many service users who are used to a system of weekly or fortnightly, individual, payments. The policy principle behind the shift is that monthly payments will more closely reflect the payment of wages as twice as many people in the UK are paid monthly as are paid weekly. However, figures cited by the DWP in its *Universal Credit Policy Briefing Note 2* show that, among lower earners (those whose annual income is less than £10,000) 49 per cent are not paid on a monthly basis (Ogus *et al.*, 2002).

The government has made clear that, in the majority of cases, it wants to pay the full UC entitlement directly to claimants – although third party deductions can be made for essential services (e.g. arrears of rent or water and heating bills), Social Fund (or local equivalent) loans and benefit overpayments. Few claimants will be able to opt for the housing element of their entitlement to be paid directly to a landlord and landlords will no longer be able to insist on direct payment if a tenant is eight weeks or more in arrears. This has raised concerns in the social and private housing sectors, where landlords fear the payment model could lead to an increase in arrears (Residential Landlords Association, 2012).

In the majority of instances, couples will receive a joint payment of UC, paid into a nominated account. Couples can choose whether the award is paid into one partner's account or into a joint account and if agreement cannot be reached, a final decision on how UC will be paid will be made by the Secretary of State. The government intends to retain powers to split payments between members of a couple in exceptional cases, details of which have yet to be announced. The Women's Budget Group (WBG) has highlighted the fact that the likely size of this single payment, alongside new conditionality rules for both partners 'make this a significant change in a new and untried context' (WBG, 2011).

The decision to distribute UC as single payment at the household level has been criticised by a number of groups including the Social Security Advisory Committee, Oxfam and the WBG (House of Commons Work and Pensions Select Committee, 2011). WBG have argued that the approach contradicts government efforts to encourage financial capability by possibly excluding one partner from handling money, while also failing to reflect the variety of ways in which couples manage their finances – for example, cohabiting couples are less likely than married couples to have a joint account (WBG, 2011 p.6). Service users themselves are concerned that those couples whose relationship status is more transient, or in households where specific problems exist such as drugs or alcohol abuse, problem gambling or domestic violence, joint payments would be unworkable (Rotik and Perry, 2011, p. 15).

The shift towards monthly payments has also been met with anxiety among service users themselves. DWP research has found that many of those on low incomes are concerned that budgeting over a monthly period will be very difficult and that more frequent payments offer greater financial security when living off a very limited income (Rotik and Perry, 2011). In work claimants tended to be more receptive to the transition in payment frequency, but these were more likely to be individuals who were earning more and already being paid on a monthly basis. Many low earners reported being paid more frequently and they responded similarly to those in receipt of out of work benefits. A related point was that some service users were more comfortable with their HB paid directly to the local council or landlord as way of removing the risk of rent arrears if finances were tight (Rotik and Perry, p.16). The same concerns were expressed in qualitative research with low income households undertaken by the Social Market Foundation with respondents fearful that juggling competing demands on their incomes meant they would run out of money before the end of each month (Keohane and Shorthouse, 2012).

Service users have shown a preference for an opt-out payment model that would allow them to make the final decision on whether to receive UC as a household payment and/or do so on a monthly basis (Rotik and Perry, 2011). However, decisions on payment exceptions will be made by DWP alone and will depend on service users meeting eligibility criteria that have yet to be defined. The process of identifying and making exceptional payment arrangements is likely to follow a number of steps: referral (can be self-referral); screening (to determine whether the service user has reasonable grounds to request a payment exception); decision; review. All payment exceptions will be time limited and will be reviewed with the intention of moving the claimant to default arrangements at an appropriate time (DWP, 2012e).

To assist those who are concerned about the financial impact of the changes to payment arrangements, the DWP has committed itself to providing personal budgeting support consisting of a combination of budgeting advice services (delivered across all channels) and financial products, including 'jam jar' accounts, that offer automated payment facilities such as direct debit. Detailed proposals for how the support will be delivered are currently being developed but DWP expects to learn from a series of projects that are examining the shift to direct payments of HB to claimants.

From June 2012 to June 2013, a number of local authorities and housing associations will work in partnership to deliver demonstration projects that test how claimants in the social rented sector will manage HB monthly payments ahead of the introduction of UC (DWP, 2012c). The projects will examine different trigger points when social landlords should receive direct payments if tenants fall into specified levels of arrears and will also explore how best to communicate the changes to claimants, provide assistance with budgeting to successfully pay their rent, and support claimants and landlords experiencing financial difficulties.

It is critical that the DWP defines the scope and scale of money advice services and any intermediary financial assistance that will be provided to UC claimants. The shift to monthly payments may be a difficult transition for many service users, not just those who struggle to budget ordinarily, simply because budgeting on a low income is challenging; it may be much harder for low income households to reduce their weekly expenditure in the short-term as they prepare to budget over a monthly period because a large proportion of it goes towards essential items (such as food and fuel) (Levell and Oldfield, 2011, p.51). If no financial assistance will be available to bridge the gap, it is important that service users are prepared well in advance for the shift to monthly payments so they can start to make provisions for any shortfalls and this means implementing advice and support now. If financial assistance will be available, but requires service users to borrow money – through an advance payment, for example – this may lead to many UC recipients beginning their claim in debt. In this key transitional stage, the government should improve the availability of financial advice and support – the lack of clarity around what this will look like and when services will be established gives much cause for concern.

3.3 The exceptions to simplification?

3.3.1 Localisation of replacements for Council Tax Benefit and parts of the Social Fund

The government announced its intention to localise council tax support in the 2010 Spending Review, along with a commitment to reduce expenditure on support for council tax by 10 per cent, or £490 million each year. Subsequently the Welfare Reform Act 2012 legislated for the abolition of CTB and elements of the discretionary Social Fund (Community Care Grants and emergency Crisis Loans), replacing both with localised schemes run by local authorities in England, while in Scotland and Wales, the money is being given to the devolved administrations to allocate to local government (Scotland has said it will make up the 10 per cent cut from central funds). It is expected that a one-off transition to the new localised schemes of support will take place in April 2013.

Council Tax Benefit

In 2010–11, CTB spend amounted to around £4.9 billion, representing around 2.5 per cent of total benefits expenditure, distributed between around 5.9 million people (DWP, 2012b). Between November 2008 and April 2012, the number of people in receipt of CTB has increased by almost 13 per cent (DWP, 2012b). In the current system, service users can access CTB whether or not they are in employment and it can be claimed by both tenants and home owners. The administration of CTB is determined by national criteria and local authorities are then reimbursed for the rebates that they award.

The government expects that the localisation of CTB will increase local authorities' influence over local spending decisions, allowing them to design schemes that support local priorities, while simultaneously reducing national spend on support for council tax (Department for Communities and Local Government, 2012). The LGA supports the decision to localise Council Tax support schemes but has argued that the accompanying 10 per cent budget cut will create 'serious problems' and councils will need to impose much larger cuts on some service users, as support for pensioners must be maintained at current levels (LGA, 2012).

From a working age service user perspective, the impact of the 10 per cent cut could therefore be significant. The House of Commons Scrutiny Unit, which provides specialist expertise to select committees, has estimated the impact of a 10 per cent cut to CTB with protection for those over 65. Using DWP figures for 2010–11, it calculated that non-pensioners would face an average cut of around 16 per cent in their council tax support and protection for other vulnerable groups, for example

those currently in receipt of 100 per cent CTB, would increase this further (House of Commons Scrutiny Unit, 2011, p.20).

Alongside the impact of a 10 per cent cut, it has been argued that the localisation of CTB will reduce the simplicity that UC is supposed to bring by introducing a separate administration process for service users to navigate and a separate taper that may undermine any increases in financial incentives to work created by UC. The Joseph Rowntree Foundation commissioned the Institute for Fiscal Studies (IFS) to carry out research into the localisation of support for Council Tax payments. The report, *Reforming Council Tax Benefit*, was published in May 2012 and highlighted concerns that trying to design a rebate scheme that fits with the aims of UC will be a 'formidable' task for local authorities. Although the IFS recognised some advantages to localisation, it concluded that the policy approach 'severely undermines' the simplification agenda and reduces work incentives for service users by introducing a separate means test that would likely be so aggressive that it will leave some people worse off as their earnings rise (Adam and Browne, 2012).

From the service user perspective, the localisation of CTB creates two main issues: the increased likelihood that low income, working age, households will receive reduced rebates; and that one of the key principles of UC, increased simplicity, will be undermined. It will be critical that a rigorous system of accountability is put in place by April 2013 so that LA spending decisions do not unfairly discriminate against working age service users and, as much as possible, the proposed but as yet unpublished 'national framework' seeks to retain the merits of simplicity and improved incentives that UC aims to introduce.

Social Fund

The Welfare Reform Act 2012 contains provisions to abolish the discretionary Social Fund. In April 2013 funding for community care grants and crisis loans for living expenses will be transferred to local authorities in England and to the devolved administrations in Scotland and Wales. The rationale behind reform is that discretionary schemes would be more effectively run at a local level, where staff better understand local priorities and individual service user circumstances. The government expects local authorities to use 'the funding and flexibility to re-design the emergency provision for vulnerable groups according to local circumstances, in order to meet severe hardship in the way they think best' (DWP, 2011d). This may include a shift away from cash to in-kind support with at least some local authorities considering referring clients to food banks and issuing electronic food vouchers (Butler, 2012).

As part of Social Fund reform, ring-fences will be removed from funding in order to reduce reporting burdens and give local authorities the opportunity to respond how they think best. This had led to concerns among stakeholder groups that this will lead to complexity as a plethora of different processes and eligibility criteria across areas are developed, subsequently leading to a postcode lottery for those in need of emergency financial assistance. In an open letter to *The Guardian* newspaper, 20 voluntary sector organisations argued that

‘With councils already experiencing large cuts to central government grants, we fear that some areas will choose to provide no, or extremely limited, support – especially given that funding for crisis loans will be almost halved from £67 million in 2010–11 to £36 million in 2013.’ (Guardian, 2012)

The Communities and Local Government Select Committee has welcomed plans to localise the discretionary Social Fund to ensure that it better reflects area-specific need but it emphasised the importance of ensuring that schemes are adequately funded so that the removal of ring-fencing does not leave vulnerable service users without access to emergency financial support (House of Commons Communities and Local Government Committee, 2011). Similarly, while agreeing with the principles of reform, the Social Fund Commissioner has highlighted the importance of designing schemes that are simple for people to access and to navigate, that provide clarity about the type of support available and about the specific outcomes it is intended to promote (Social Fund Commissioner, 2012).

It will be critical that service users are made aware of how schemes are changing at a local level. Councils need to work with community organisations to ensure that service users are informed about new arrangements, and that eligibility criteria and access arrangements are clear and easy to follow. A set of national minimum standards would help to ensure a guaranteed level of service for users, while still allowing for local flexibility in provision. These should be backed by a system of redress that is transparent and efficient; given the nature of social fund assistance, service users will typically need a decision on payment quickly and this must be reflected in the design of local decision making and appeals systems.

3.3.2 Passported benefits

Claimants who are currently entitled to income related support may also be eligible for a range of other support through passported benefits including free school meals and health benefits such as free prescriptions. Following the introduction of UC, and the replacement of existing benefits, the system for passporting people through to this support will need to change. In May 2011, DWP commissioned the Social Security Advisory Committee (SSAC) to undertake an independent review of

passported benefits and how they link with UC. SSAC's review found that all passported benefits fulfil important needs, are highly valued by those who receive them, and can make a valuable contribution to recipients' health and wellbeing alongside children's educational and emotional development (DWP, 2012h). The Committee reported that there was no robust evidence to suggest that passported benefits could act as a work disincentive as people tended to take a range of factors into account when making decisions about employment. However, they did find evidence that the loss of passported benefits can create cliff-edges for those in work and reduce the financial gains of employment.

SSAC concluded that sensible reform of the passported benefits system could involve a 'run-on' whereby entitlement continues for a set period, even where earnings or income increases above the entitlement threshold, and a tapered approach where support is withdrawn gradually as income rises. However, the introduction of a second taper, to be applied separately to UC, would add a layer of complexity to the UC system and it would also require that a cash value be assigned to passported benefit entitlement. In response to the SSAC review, DWP has agreed to continue to work closely with those departments responsible for passported benefits as they develop new eligibility criteria (DWP, 2012h, p.3).

3.3.3 Devolved administrations

The UK government has stated its intention to ensure, as far as possible, that it maintains a single system of social security throughout the UK. Social security is a devolved matter in Northern Ireland but the Department for Social Development and its executive agencies are expected to work closely with DWP and HMRC to ensure design and implementation reflects the system in Great Britain. To this end, the Social Development Minister for Northern Ireland has committed to consulting with service users in advance of 2013 to help inform its planning for the introduction of the new benefit.

While the Welsh Assembly has shown support for the government's welfare reform programme, in Scotland, following concerns among MSPs that the programme of reform would adversely affect the most vulnerable service users, the Scottish Parliament took the unprecedented decision to reject elements of the Welfare Reform Bill and enact its own primary legislation instead (Scottish Parliament, 2012b). During the debate on the Motion, the Cabinet Secretary made it clear that the Scottish Government would take 'whatever steps are necessary, in the timescale required, to ensure that we protect access to passported benefits when UC is introduced.' (Scottish Government, 2012) To this end, a Welfare Reform Committee has been established to review the impact of UK welfare reforms and consider relevant Scottish legislation. The Scottish Government and the Convention of

Scottish Local Authorities have also committed to bridging the 10 per cent funding gap by providing £40 million to protect benefit levels for the reformed CTB in 2013–14 (Scottish Government, 2012b).

The Scottish Government will need to establish new criteria for passporting entitlement to these schemes, although this will be dependent on the UK government establishing in more detail how the new UC and PIP will operate in practice. A number of Scottish stakeholder organisations, including Citizens Advice Scotland, have raised concerns that the lack of detail in the Welfare Reform Act 2012 makes it difficult for the Scottish Government to effectively design its legislation and policy, particularly in relation to passported benefits (Scottish Parliament, 2012a).

The localisation of key parts of the benefits system will test one of the key principles of UC, simplification, to its limits and is likely to undermine simplicity gains. It appears increasingly that the broader vision for UC has been eroded as incremental decisions through the design process have, arguably inevitably, altered the core. Localised rebate schemes for council tax and arrangements for passported benefits are likely to see the single taper rate lost and introduce a further administrative layer for service users. As a plethora of different local arrangements are developed for CTB and the Social Fund, local JCP staff, intermediaries and service users will need to assimilate how national and local arrangements interact with one another and calculate how this impacts upon complexity of the system and on incentives to work. Although there are benefits to localising elements of financial support, the government should commit to reviewing the impact this has on the key aims of UC and, if the evidence suggests the main benefits of UC have not been realised, localisation – particularly of CTB – should be reconsidered.

4 Making work pay

As one of the central tenets of UC, making work pay will be a key determinant of success for the government's welfare reform plans. Among service users, recent DWP research has demonstrated that 'making work pay' was seen to be the top priority in resolving issues with the present system (Rotik and Perry, 2011, p.9). Achieving this will rely on four main things: a benefits system that incentivises work; quality employment and skills provision to assist those out of work into a job; a receptive labour market with opportunities to progress and service users that are motivated to find employment. The extent to which service design and delivery can influence demand side determinants of employment availability is limited but a benefits system that rewards work, backed by the availability of quality employment programmes, will be critical to the development of supply side provision that supports service users to enter and remain in the labour market.

4.1 Incentivising work through the benefits system

The government has stated that increasing the incentive to work is one of the main drivers behind its welfare reforms. In the previous chapter, we examined the proposed simplification measures under UC and the extent to which they might address problems faced by service users accessing benefits. Alongside simplification, DWP has calculated that the combination of earnings disregards, the removal of hours rules and the introduction of a standard taper rate will lead to a reduction in the number of workless households of around 300,000. This is based on an estimation of the number of people who, under new rules, would be incentivised to undertake 'mini-jobs' (250,000) and the number of people who are more likely to work full time because the benefits of employment will be more transparent under the new system (100,000). DWP have offset this calculation with a reduction of 50,000 to account for the estimated number of people for whom the benefits of working will reduce under UC (DWP, 2010a, para. 11).

A mini job refers to employment of less than 16 hours per week. The incentive to undertake a mini-job increases for each disregard group (details of which are set out in chapter 2) because, currently, claimants must work between 16 and 24 hours in order to qualify for in-work support in the form of WTCs. However, the incentive to work full time (30 or more hours per week) increases only marginally for some under UC – and for others it is weaker than in the existing system. The Institute for Fiscal Studies (IFS) has published an analysis of the work incentives for different groups and found that (Brewer *et al.*, 2011):

- Single adults will have an increased incentive to take on a mini-job but will be worse off under UC compared to current rules if they work between 30 and 39 hours per week.
- A lone parent with two children working for 30 or more hours per week would be slightly worse off after reforms are implemented because the maximum entitlement under Tax Credits exceeds their entitlement under UC. The marginal effective tax rate (i.e. the combined effect on a person's earnings of income tax and the withdrawal of means tested benefits) this individual would face would also be higher under UC as they increase their hours above 30.
- A first earner in a couple with two children whose partner does not work will be better off in work under UC, regardless of how many hours they work. This is because of a lower withdrawal rate under UC compared with the combined withdrawal rates of WTC and HB in the existing system.
- A second earner in a couple without children will be better off under UC, providing they work no more than 10 hours per week.

4.1.1 Mini-jobs

By removing the disincentives to undertake a mini-job under UC, the government anticipates that more people will be encouraged to work for fewer hours as a stepping stone towards full-time work. Some recent evidence supports this; the evaluation of Lone Parent Obligations found that many lone parents believed a mini-job would act as a springboard towards employment of 16 hours or more and, during the course of the evaluation, some extended their hours having initially been working fewer than 16 hours per week (Coleman and Lanceley, 2011). In 2007, research published by JRF concluded that increasing the amount that lone parents can earn before means-tested benefits are withdrawn would be an effective way to encourage lone parents to work in mini-jobs (Bell *et al.*, 2007). Furthermore, research from Australia and other countries has found that, for some groups, part-time employment can increase the probability of full-time employment in the following year, although other comparative findings report that for other groups mini-jobs act as 'dead ends' rather than 'stepping stones' (Casebourne and Finn, 2011).

The likelihood of more people moving into a mini-job will also depend on the availability of appropriate work. Historically, the UK labour market has generated low numbers of applicable roles; the proportion of workers employed for less than 16 hours per week actually fell from 10 to eight per cent between 1993 and 2010 (The Work Foundation, 2011, p. 9). Since the beginning of the economic downturn, there

has been an increase in the number of people undertaking part-time work but this is a consequence of a rise in 'underemployment' i.e. employees who have been unable to find full-time work are working shorter hours. Between January and May 2012, the number of part-time workers increased by 118,000 on the quarter to reach 7.99 million (the highest figure since comparable records began in 1992) but the number of full-time workers fell by 13,000 to reach 21.24 million (ONS, 2012b). In order that service users can take advantage of the new rules on short hour working, employers will need to respond to policy changes by offering greater numbers of relevant vacancies.

Alongside the need for an increased supply of mini-jobs, UK and international evidence has demonstrated that policies introducing favourable earnings disregards will only lead to increases in the proportion of claimants working part time if employment service staff and intermediaries effectively communicate the benefits of policy changes (Finn *et al.*, 2008, p.3). Previous JRF research has highlighted the importance of accurate and comprehensive information, and this is particularly important where changes to existing rules will benefit individuals (Finn *et al.*, 2008).

4.1.2 Addressing other barriers to work

Recent DWP research with service users suggests that marginal increases in earnings alone are unlikely to provide sufficient incentive for a person to move into work. Furthermore, the small financial gains a person might expect under UC are likely to be cancelled out by the additional expenses they will incur, such as transport and childcare costs, alongside the loss of passported benefits (Rotik and Perry, 2011). The government will make an extra £300 million available to support childcare costs under UC and extend help to parents working below 16 hours per week on the same terms as presently offered to those working more than 16 hours, i.e. coverage of 70 per cent of childcare costs of up to £175 for one child and £300 for two or more children. This will improve arrangements for those working mini-jobs but, according to research by the Resolution Foundation and Gingerbread will fail to address the childcare disincentive for the majority, as parents on low incomes are already paying 50 per cent more towards childcare than they did previously, following the reduction in eligible childcare costs from 80 to 70 percent in April 2011 (Hirsch, 2011).

While the incentive to work for a few hours increases under UC, the financial incentive to work full time decreases for many and is only marginal for others. Given that other barriers to work, particularly childcare costs, are likely to persist, the anticipated improved financial benefits of working of UC are unlikely to materialise for some groups.

4.2 Employment programme provision

4.2.1 Jobcentre Plus: Pre-Work Programme offer

Alongside the implementation of UC, the DWP has committed to transforming JCP operations, modernising the way it delivers its services and giving advisers the discretion to assess service users' needs and to offer the support they think most appropriate (DWP, 2010c). Ultimately, the intention is create a 'smaller, leaner and more flexible organisation which delivers more of its services over the telephone and internet' (Jobcentre Plus, 2011, p.3). The implications of a more digitalised approach for benefit delivery was discussed in the previous chapter but this channel shift and other changes to the JCP delivery model are also likely to have significant effects on public employment provision for service users.

Overall, JCP services are well received by service users. The latest Customer Satisfaction Survey shows that almost nine in ten (88 per cent) respondents said they were satisfied with the services offered, with just over a third (34 per cent) saying they were very satisfied. One in ten respondents (10 per cent) were dissatisfied and dissatisfaction was highest among ESA claimants (17 per cent). This group was also the most likely to say that the service was worse than expected and that the service needed improvement (Howat and Pickering, 2011).

Following UC implementation, former JSA and ESA claimants will continue to receive their initial back to work support from JCP. The level of support offered will vary according to the benefit status, age and duration of individual claims with more intensive support provided under the 'Pre-WP offer'. Since its introduction in April 2011, the offer has described a new approach to advisory interventions, which moves away from a nationally prescribed approach towards a more flexible regime, where in qualifying JCP Districts the nature and frequency of adviser interventions are decided by advisers at a local level. JCP advisers must undertake three 'core' interventions with service users claiming JSA (the New Claim Interview, Pre-referral to the WP interview and the Fortnightly Job Review); beyond which, service design is discretionary. For ESA claimants, the core offer includes an initial Work Focused Interview and completion of an agreed Action Plan (DWP, 2011a). Within the offer, personal advisers can refer to and draw on a range of job search assistance services although access to discretionary budgets to help with meeting employment costs is limited.

From April 2012 the 'Youth Contract' has introduced a further separate stream of support that enables JCP, WP providers and sector-based work academies to deliver additional services for young unemployed people aged 18 to 25 years.

Previous research has called for greater adviser flexibility to address service user concerns that inadequate time and process-driven content has hampered JCP provision and the offer has the potential to overcome these issues (Marangoznov *et al.*, 2010). However, the Equality Impact Assessment raises the possibility that flexibility and devolved decision making to District Managers and Jobcentres 'carries with it a risk of allegations of inequitable treatment through the provision offered within a district' (DWP, 2011a). While DWP hopes that local impact assessments will mitigate this risk, some service users (lone parents) have previously reported that the range of support available through the offer has not been communicated, and despite new flexibilities, short sign-on appointments have persisted under the new regime (Lane *et al.*, 2011). Given that service users have shown a clear preference for advisers that are proactive in helping with their job search and are dissatisfied when they feel advisers do not understand their support needs, it is vital for advisers to have a clear understanding of what is appropriate for individual customers (Howat and Pickering, 2011).

For increased flexibility and adviser discretion to achieve the goal of more personalised service provision, and ultimately more people moving into employment, JCP must overcome the common complaint that support options are inadequately communicated. As more and more services are delivered using digital channels, it will become increasingly important that provision is accessible and information is comprehensive. By 2015, JCP expects that appointment bookings will be available for customers so they can book and amend appointments online; job search activity will be recorded on single view screens accessible to staff and service users; automated job matching services will be up and running and fortnightly signing will take place on digital pads.

The expectation is that greater investment in digital services in some areas will allow better tailoring of face-to-face support but DWP must learn from existing research that has demonstrated how increased flexibility does not automatically lead to more personalised service delivery (Coleman and Lanceley, 2011). A key driver of adviser flexibility is rightly that it gives advisers the autonomy to dedicate more time to those service users who require more face-to-face support; if this benefit is not realised, there is a risk of poor service delivery for some users and an increased potential that those who are digitally excluded will be unable to access appropriate support.

A recurring theme in the evidence examined for this report is the need for timely and thorough staff training to ensure that service providers are knowledgeable and able to guide users through changes to processes and frontline service delivery. JCP staff must be ready and equipped to deliver support before UC is implemented and the tight deadlines for introduction may put this at risk. Expertise must be developed on

both the details of reform and on how employment support should be designed to best support the aims of UC. Given that the regulations are yet to be finalised, the production of guidance for JCP staff is unlikely to be imminent. Employment provision needs to focus on maximising the benefits of reform and appropriate advice and support should be available to ensure that difficulties with a claim or UC payment do not disincentivise work.

4.2.2 The Work Programme

Alongside the UC, the WP is central to the government's plans to reform welfare and tackle worklessness.⁴ As the single largest employment programme it provides support for both the long-term unemployed and people with work-limiting health conditions in Great Britain across 18 'Contract Package Areas'. Contracts are for five years and their value varies from £10 to £50 million per year; each contract area has at least two prime contractors, with claimants referred randomly between them. The differentiated 'payment by results' model for prime contractors includes a relatively small up front 'attachment fee' followed by job outcome payments and sustainment payments that reward providers for assisting the most disadvantaged retain employment for up to two years.

The official WP evaluation is underway but, so far, no interim reports have been published and it is therefore difficult to assess whether service users are receiving adequate support or the extent to which the broader economic situation is hampering providers' efforts to get people back into work. Nevertheless the programme has been subject to criticism and negative media coverage dominated by concerns with 'fraud' on the part of some providers, and also concerns about the poor quality of service for some participants, with some providers and/or in some locations (NAO, 2012a). There are reports of advisor caseloads being far higher than in earlier programmes with participants complaining about a lack of resources, such as computers and other job search materials. There are also concerns about the impact that the new contracting model has had on smaller and specialist employment providers who now work as subcontractors for the primes.

The government does not anticipate the need to make significant changes to the WP following the introduction of UC. If any changes are required, DWP plans to make these before October 2013 when UC is introduced (NAO, 2011a). However, there are a number of elements of the WP that are incompatible with UC and these must be

⁴ The Northern Irish Government is undertaking a consultation exercise on proposals to introduce an equivalent to the Work Programme, albeit there will be some significant differences in programme and contract design (Department for Employment and Learning, 2012).

addressed if the programme is to incentivise providers to help service users make the most of the changes UC will bring. The current WP model was not designed to support employment of less than 16 hours, and while sustainment fees reward providers when someone stays in a job, they do not incentivise providers to help a person to progress. Furthermore one of the current means of checking an individual is in work, the 'off-benefit' check will no longer be fit for purpose, as UC is both an in and out of work benefit. There is limited time to address these issues and providers need clarity on how these elements of programme design will be amended in time for UC's introduction.

WP providers will have an important role to play in helping service users to manage the transition to the UC regime and explain changes to work incentives. The introduction of the 'claimant commitment' and increased sanctions also have implications for the role providers already play in explaining and 'policing' employment requirements that will now include rules on in-work conditionality. There is a risk of confusion caused by the overlapping responsibilities of JCP and providers both of whom may seek to pursue different approaches to employment assistance and relevant activities. For example, JCP performance targets, which have no measure of sustainability, promote a 'work first' approach whereas a WP provider may take a longer view with less emphasis on the speed of an initial job placement. The introduction of UC represents an opportunity for the department to clarify the status of the job search and work activity requirements included in a WP Action Plan, agreed with a provider, and how this relates to immediate job search and availability requirements that will be contained in the 'claimant commitment'.

4.2.3 Universal Credit and self-employment

DWP estimates there will be around 600,000 households in the UK on UC with at least one individual whose main employment is self-employment and 370,000 of these will have an income below their personal capacity for full time work paid at national minimum wage (DWP, 2012j).

Claimants subject to work related requirements (and those in the No Work Requirement group whose income takes them above their personal threshold) who declare self employment as their main employment will be required to attend a 'Gateway interview'. During the interview, claimants must demonstrate with evidence that their self-employment is genuine, organised, and carried out with the expectation of profit (DWP, 2012e). There will be a minimum income floor – an assumed level of income that will limit the amount of UC a self-employed person can claim. Those moving into self-employment will be entitled to a one-time-only start-up period during which conditionality will be relaxed and claimants will only be

required to attend quarterly interviews and to provide evidence that demonstrates they are still trying to increase their income from self employment.

The LITRG has been strongly critical of the Draft Regulations approach to self employment, describing them as a 'massively retrograde' step in support for the self-employed (LITRG, 2012b, p. 4). LITRG has argued that the minimum income floor will act as a major barrier to people pursuing self-employment and should only be applied where there is evidence that a business owner is manipulating profit in order to maximise their UC entitlement.

The draft UC regulations also outline a different set of rules for self-employed recipients on reporting income to HMRC. Unlike employees, there will be no RTI feed for income from self employment – claimants will self report their earnings and it is expected that self-employed individuals will be required to complete an additional online report in order to calculate their UC entitlement (DWP, 2012k). Under the proposals, self-employed earnings will be reported on a monthly basis and failure to make a claim within seven days of this period will result in payment being suspended. The Institute of Chartered Accountants in England and Wales has described this requirement as 'wholly impractical' for self-employed individuals who are likely to be unable to gather the correct information on time (Institute of Chartered Accountants in England and Wales, 2012).

There are clearly a number of major concerns among experts that UC could actually disincentivise individuals from starting their own business because of the administrative burdens that will be placed upon them. In May 2012, Lord Young's review of support for small businesses highlighted the need for simple advice and information and this will become ever more important if UC rules increase complexity for small business start ups (Young, 2012). It will be critical that the impact of the new regulations on numbers choosing to set up an enterprise are monitored and the government should look for ways in which existing programmes, such as the New Enterprise Allowance scheme, can provide assistance to self-employed service users to overcome the pressures of additional administrative burdens. Encouragingly, DWP has commissioned research to examine how UC implementation will affect self-employed people and, given that this group will not move onto UC until April 2014 at the earliest, there is still time to develop systems and support that take account of the concerns raised by stakeholder groups (Staniland, ongoing).

5 A new approach to personal responsibility

5.1 The claimant commitment

In 2008, *Inclusion's* report for the JRF highlighted how, over time, public policy on welfare and benefits has increasingly been designed to 'shape and change 'customer' behaviour' and the current direction of travel continues this trend (Finn *et al.*, 2008, p. 9). The Welfare Reform Act 2012 introduced provisions for a 'claimant commitment'; a live document that will outline general expectations of UC recipients (including the requirement to report appropriate changes in circumstances) and the consequences of failure to meet the conditions of benefit receipt (Welfare Reform Act 2012. c.5 s.14) All claimants must accept their claimant commitment as a condition of entitlement to benefit and the government has committed to ensuring that acceptance will be an integral part of the claims process so as not to add additional burdens onto service users.

The introduction of a claimant commitment that provides a clear statement of a recipient's responsibilities is a welcome development, particularly if it gives clarity for service users at the beginning of their claim about what they can expect and what their responsibilities are. There is limited information available on how the commitment will be drawn up but the implication from the regulations is that it will be a commitment by the claimant to the department, rather than an agreement between the two. The distinction is significant and it is important that the commitment should represent an agreement between the service user and adviser rather than a one-sided commitment to the department. The commitment should set out the actions the claimant should take to prepare or look for work and include a clear statement of the support they can expect in return, relative to the conditionality group in which they are placed.

Service users who are subject to full conditionality will agree their commitment at a face-to-face interview but others will agree their commitment online. There is the possibility that misunderstanding or confusion will not be identified before service users commit to the conditions of benefit receipt. Early research following the introduction of the JSA regime highlighted the importance of providing claimants with an explanation of the purpose of the Jobseeker's Agreement. When asked about conditions of entitlement, a survey of JSA claimants found that only four per cent of respondents mentioned the need to sign and agree a Jobseeker's Agreement

as part of benefit eligibility (McKay *et al.*, 1999, p.33). That is not to say that the Jobseeker's Agreement was ineffective, DWP research has shown that following its establishment, claimants had a greater understanding of their job search responsibilities (Rayner *et al.*, 2000), and the introduction of JSA increased the flow out of benefit by eight to nine percentage points (Manning, 2005). However, this does present a potential risk that online acceptance of the claimant commitment could leave some service users without a full understanding of the conditions of benefit entitlement.

5.2 Personalised conditionality and sanctions

As outlined in Chapter 2, recipients of UC will be placed into one of four conditionality groups. Conditionality levels will range from 'full conditionality' for jobseekers to 'no conditionality' for those in the equivalent to the ESA support group, some carers and lone parents with a child under one. In practice, the conditionality regime is broadly the same as now – the primary difference under UC is that sanctions for non-compliance will be greater. If sanctioned claimants aged over 18 subject to high, medium or low level sanctions will lose an amount equivalent to 100 percent of the UC standard allowance (see Table 5.1). Adult claimants subject to the lowest level sanctions and 16 and 17 year old claimants will lose 40 percent of the UC standard allowance.

Table 5.1: Universal Credit Sanctions Regime for claimants aged over 18

Sanction Level / reason	Applicable to	Duration		
		1st failure	2nd failure	3rd or subsequent
High Level e.g. failure to take up an offer of paid work	Claimants subject to all work-related requirements	91 days (3 months)	182 days (6 months)	1,095 days (3 years)
Medium Level e.g. failure to undertake all reasonable action to obtain work	Claimants subject to all work-related requirements	28 days (4 weeks)	91 days (3 months)	
Low Level e.g. failure to undertake particular, specified work preparation action	Claimants subject to all work-related requirements	Open ended, until re-engagement, plus		
	Claimants subject to work preparation and work-focused interview requirements	7 days (1 week)	14 days (2 weeks)	28 days (4 weeks)
Lowest Level Failure to participate in a work-focused interview	Claimants subject to work-focused interview requirements only	Open-ended until re-engagement		

In 2008, *Inclusion's* report for JRF reviewed the use of sanctions in the benefits system and found that requirements and associated regulations are often complex and difficult for both staff and service users to understand and there is often significant variation in how sanctions are implemented. The evidence demonstrated that sanctions work as a deterrent by bringing about a greater level of compliance but, when enforced, often led to financial hardship, were disproportionately experienced by some more disadvantaged groups with some who experienced benefit reductions not being aware that this was owing to being sanctioned (Finn *et al.*, 2008, p.30). Further research has shown that, when sanctions and conditionality are enforced, they can have a positive effect on short-term outcomes, such as

raising employment rates, however they can result also in poor quality employment and impact unfavourably on crime rates (Griggs and Evans, 2010).

In the current system, the final decision on sanction length at the higher level is reached by a DWP decision maker; however, under the new sanctions regime, the highest level sanctions will be for three months for the first failure to comply; six months for the second and three years for the third. Only claimants subject to 'all work-related requirements' – currently those on JSA – will be subject to the highest two levels of sanction. Low level sanctions will primarily be for failure to attend appointments. Behaviour that may result in a high level sanction will include refusing to apply for a job or to accept a job offer, or leaving a job voluntarily. Hardship payments for those sanctioned in UC will only be available to those who have complied with all work-related requirements in the previous compliance period and any payment will be 'recoverable' from future UC payments (DWP, 2012d, para 299).

Removing the discretionary element of sanctions decisions from the higher level should help to address variations in the way sanctions are applied between local officers, and may make it easier for staff to explain the nature of the sanctions regime (Finn and Gloster, 2010). However, it also removes the possibility of tailoring the length of the sanction on the basis of individual circumstances. This flexibility is particularly important for vulnerable claimants, as evidence shows that disadvantaged groups (such as young people; those with low qualifications; those with practical barriers to employment, such as childcare or transport costs; those with health problems) are more likely to be sanctioned than other service users (ibid). Citizen's Advice has reported that many clients sanctioned are vulnerable service users and a survey of front line staff at St Mungo's found that sanctioning of their homeless clients was common; only 20 per cent reported no sanctions over a 12 month period in 2011 (Child Poverty Action Group *et al.*, 2011).

Service users have identified potential risks of a tougher sanctions regime, including an increase in the number of people requiring emergency financial support, family breakdown and increases in crime and have highlighted the importance of ensuring that claimant obligations are reasonable so that sanctions can be avoided (Rotik and Perry, 2011). Qualitative studies in the UK and other countries have also reported variations in the commitment and capacity of front line staff to communicate and impose work-related requirements and sanctions suggesting that informal discretion may be an important factor in explaining the impact of policy change and the quality of services received by clients. Such findings illustrate the importance of monitoring how requirements are perceived by front line staff and local policy makers and how far such perceptions are congruent with policy intentions (Finn and Gloster, 2010).

5.2.1 In-work conditionality

The government is creating a new in-work conditionality regime where claimant requirements are calibrated with an 'earning threshold' set at the level of effort it is reasonable for an individual to undertake. If someone is earning below the conditionality cut-off point they will be expected to 'look for work, more work or better paid work'. The expectation is that working age adults without caring responsibilities or a health condition will be subject to conditionality until they are working full time (35 hours) at National Minimum Wage – at current rates this would be £212.80 per week (Rotik and Perry, 2011).

In support of its decision to introduce in-work conditionality, the government points to evidence that shows how conditionality in both the JSA regime and on IS has led to reduced worklessness among both claimant groups. There is little comparative evidence on how conditionality on benefit claimants working longer hours may be implemented in practice and evidence from countries such as Germany and Australia suggests that despite continuing conditionality more generous earnings disregards or treatment of mini-jobs may be linked with higher numbers of claimants combining work with benefits for longer periods (see, for example, Eichhorst, 2012, p.17).

Imposing conditionality on claimants *in work* is unlikely to lead to an increase in a person's working hours or earnings unless combined with other support. However, evidence from the Employment Retention and Advancement (ERA) demonstration programme has illustrated the challenges to designing successful support for earnings progression. Between 2004 and 2007, the ERA programme, tested the effectiveness of interventions (including job coaching, advisory services, training and financial incentives) aimed at improving the labour market prospects of low paid workers and the long-term unemployed. Evaluations of the project found that, while ERA increased the employment chances of the long-term unemployed, it had no impact on their earnings (Sianesi, 2011).

It is important that the in-work conditionality regime is balanced by a system of clear incentives to progress in work. This will require JCP and employment providers who are supporting claimants to actively engage with in-work recipients of benefits, and possibly employers, in new ways. Employment support for those in work must be designed to encourage claimants to stay in touch, motivate them to progress and be dynamic enough to also respond to local employers' needs.

The need for employment support to shift its focus towards progression will be a significant contributor to UC achieving its aims. Further research and development is required into how best to amend the WP payment model to encourage providers to support people to progress in terms of their rate of pay and/or their hours of work.

5.2.2 Civil penalties

The Welfare Reform Act 2012 introduces a new system of civil penalties that will apply under UC. This could include a £50 fine for those who fail, without good reason, to report a change in circumstances. The government hopes that the threat of a civil penalty will act as a deterrent against fraud but stakeholder organisations are concerned that claimant error will be penalised in the process. In a Joint Briefing during the Third Reading of the Welfare Reform Bill, a number of organisations suggested that civil penalties should only be brought in if a penalty for official error, in the form of claimant compensation, was also introduced (Child Poverty Action Group *et al.*, 2011).

5.3 Means of redress

Complaints systems and means of redress under UC will largely mirror existing arrangements. Service users who wish to challenge a decision on benefit entitlement will do so through the decision making and appeals process and complaints about other aspects of service delivery will be handled through the less formal procedures.

5.3.1 Decision making and appeals

The Draft *Decision Making and Appeals Regulations for UC* and other working age benefits set out how service users can appeal decisions on their entitlement to UC. The regulations do not present major changes to the decision making and appeals process; decisions will be reconsidered by a DWP decision maker before any appeal can be made, as in the existing system. However, the digital nature of claims processing will change the way in which service users are notified on the outcome of a claim as the majority of decision notices will be issued online. The DWP has acknowledged that claimants are more likely to dispute a decision if they do not understand it, it will therefore be essential that decision notices delivered using online channels are clear and unambiguous. The department has previously been criticised by the NAO and by the Work and Pensions Select Committee for producing computer-generated letters that fail to clearly explain a decision on entitlement and this issue must be addressed as the claims process becomes increasingly digitalised (House of Commons Work and Pensions Select Committee, 2010).

The government accepts that changes to social security are likely to lead to an increase in appeals (DWP, 2012e). This will be exacerbated by the extension of conditionality to those in work, which will lead to significant numbers of employed disabled people having to undergo a Work Capability Assessment to determine entitlement to UC. This in turn, will affect service users who challenge a benefits decision, potentially delaying access to social assistance. Following the introduction

of ESA to replace Incapacity Benefit, there was a significant rise in the number of appeals, which directly impacted upon the Tribunal Service's ability to meet targets for hearings and subsequently delayed the appeals process. It will be necessary to ensure that the Tribunal Service is prepared and adequately resourced to handle a significant increase in workload so that disputes are resolved as quickly as possible and do not lead to prolonged periods of uncertainty around final payment decisions.

The move towards a tougher sanctions regime and the introduction of in-work conditionality should be accompanied by sufficient and appropriate support to help people meet the terms of their entitlement and a fair and efficient system of redress. Evidence from the UK suggests that conditionality has a positive effect in job entry rates (Griggs and Bennett, 2009, p.33); however, evidence on sanctions is mixed – claimants who are sanctioned often experiencing hardship and debt but sanctions do not necessarily lead to positive behavioural changes (Griggs and Bennett, 2009, p.35). Getting this balance right will require easily accessible channels for the user voice to be heard and the DWP should not underestimate the value of user feedback as a tool for improving service delivery and evaluating the success of UC implementation. The DWP Customer Charter will remain in place but there is a case for appointing a far more visible ombudsman for the benefits and employment services system to whom complaints about service delivery and quality can be addressed and who can undertake an independent assessment of how well the balance of responsibilities and service user rights is being met.

6 Conclusions

This report has sought to examine the extent to which UC will ameliorate or eliminate problems identified by *Inclusion* in its 2008 report on the delivery of benefits, tax credits and employment services. Our earlier report highlighted the difficulties that service users faced in accessing financial and employment support, focusing particularly on the barriers created by complex administrative processes, inadequately trained staff and IT issues. It is certainly the case that the vision for UC was one that sought to overcome many of these problems by creating a far simpler system that offered better financial incentives to work.

The evaluation of evidence so far suggests that there is considerable support among service users and stakeholder organisations for the principles of reform. The prospect of a simplified system that offers improved work incentives has been welcomed and viewed as a positive change that could address some of the key flaws in the existing system. However, there are also concerns that, during the process of designing UC, incremental decisions on different elements of benefit reform may significantly reduce the proposed simplification and improved work incentives. Furthermore, tight deadlines have given cause for concern that staff knowledge and training may fail to keep up with the pace of reform. The evidence suggests that there exist a number of risks, both transitional and long-term that should be mitigated if UC and broader welfare reform are to create the improvements anticipated for service users.

6.1 Transitional issues

6.1.1 Preparing service users for the shift to monthly payments

It is important that DWP defines the scope and scale of money advice services and any interim financial assistance that will be provided to UC claimants. The shift to monthly payments may be a difficult transition for many service users, not just those who struggle to budget ordinarily, simply because budgeting on a low income is challenging. It may be much harder for low income households to reduce their weekly expenditure in the short term as they prepare to budget over a monthly period because a large proportion of it goes towards essential items (such as food and fuel) (Levell and Oldfield, 2011, p. 51). If no financial assistance will be available to bridge the gap, it will be essential that service users are prepared well in advance for the transition to monthly payments so they can start to make provisions for any shortfalls. If financial assistance will be available but requires service users to borrow

money – through a bridging loan, for example – this may lead to significant numbers of UC recipients beginning their claim in debt. In this key transitional stage, the government should improve the availability of financial advice and support – the lack of clarity around what this will look like and when services will be established gives cause for concern.

6.1.2 Getting digital services right from the outset

The DWP has made progress towards developing a coherent digital strategy and this will become an ever more important part of the department's business planning once UC has been implemented. However, the DWP could go further in demonstrating how the digital model and its alternatives will ensure that no user is excluded because of gaps in service provision resulting from reforms to delivery channels. For those claimants for whom digital access will be difficult, either because of digital inexperience or the costs of access – particularly for people who do not have access to a personal computer and/or live in a rural area – alternative channels should be available, both in the early stages of UC implementation and beyond. These alternatives must be clearly signposted for service users and support should be available to assist those who need it to access them. Furthermore, given that two fifths of UK adults now own a smartphone, with the same proportion saying their phone is the most important device for accessing the internet, the DWP should ensure that the UC claims process is smart phone compliant from the outset (Ofcom, 2012). The department should also clarify its approach to managing the differential charges that UC applicants and recipients may face when using different methods to access digital services.

6.1.3 Funding for advice agencies

It is likely that UC implementation will lead to additional pressures on advice agencies, as more people seek support to understand how to claim, how benefits reform affects their household income and how to challenge decisions. The government has acknowledged the challenge that intermediaries may face but it has yet to agree to provide funding to support their role. Reaching an agreement on this should be a priority for the DWP to ensure that advice agencies can plan their service provision in advance of an influx of queries to mitigate the risk of service users being unable to access independent advice and support, particularly during the transitional stage of UC implementation.

6.1.4 Importance of an adequately prepared and trained Jobcentre Plus

A recurring theme in the evidence is the need for timely and thorough staff training to ensure that service providers are knowledgeable and able to guide users through changes to processes and frontline service delivery. JCP staff must be ready and equipped to deliver support before UC is implemented and the tight deadlines for introduction may put this at risk. Expertise must be developed on both the details of reform and how employment support should be designed to support the aims of UC best. Given that the regulations are yet to be finalised, producing guidance for JCP staff is likely to take some time. Employment provision needs to be structured in order to maximise the benefits of reform, and appropriate advice and support should be available to ensure that difficulties with a claim or UC payment do not disincentivise work.

6.1.5 Reconfiguring the Work Programme to maximise the benefits of welfare reform

The current WP model was not designed to support employment of fewer than 16 hours, and while sustainment fees reward providers when someone stays in a job, they do not incentivise providers to help a person to progress. Furthermore the current means of checking an individual is in work, the 'off-benefit' check, will no longer be fit for purpose, as UC is both an in and out of work benefit. There is limited time to address these issues and providers need clarity on how these elements of programme design will be amended in time for UC's introduction.

6.2 Longer term issues

6.2.1 Mitigating the risks of IT system failure

The consequences of system failure would be serious for UC recipients. Tight deadlines for system development have led industry experts to doubt the likelihood of programme success and, while DWP is confident the system will be fully functioning in time for UC's launch, even the Permanent Secretary has acknowledged the very real risks of IT problems.

The track record of successive governments on large scale IT programmes has been mixed, with previous major and expensive failures in the National Health Service, Fire Control Centres and the Child Support Agency. Given that UC rationalises currently separate support into one financial payment, system failure would potentially expose large numbers of service users to the risk of financial hardship. The systematic approach that the government is taking to testing its systems before

implementation is the right one; but there has been very limited publically available information on how the IT will operate and what will happen if things go wrong. DWP should address this and provide reassurance on how the system will operate, what training staff will undergo to understand it and what back-up system will be put in place if IT systems fail.

6.2.2 Providing quality alternatives to online services over the longer term

It is important that service users whose claims are not processed and managed electronically have access to face-to-face or telephone support that is as simple, efficient and accessible as those available through digital channels. The extremely tight deadline for local authorities to submit their proposals and the lack of significant funding suggests that this may not be the case. Furthermore, it is too early for the government to assume that face-to-face alternative routes would only be a temporary requirement, as the prospectus for local authorities seemed to suggest. Face-to-face support may well be required over the longer term and services should be designed, and funding packages developed, to reflect this. This issue should be revisited once UC has been implemented to assess the quality of alternative provision to online channels and the service user experience of them.

6.2.3 Impact of the localisation of benefits

The localisation of key parts of the benefits system will test one of the key principles of UC, simplification, to its limits and risks seriously undermining simplification gains. It appears increasingly that the broader vision for UC may be eroded as incremental decisions through the design process have, arguably inevitably, altered the core. Localised rebate schemes for council tax and arrangements for passported benefits are likely to see the single taper rate lost and introduce a further administrative layer for service users. As a plethora of different local arrangements develop for the replacement schemes for CTB and the Social Fund, local JCP staff, intermediaries and service users will need to assimilate how national and local arrangements interact with one another and calculate how this affects complexity of the system and incentives to work. Although there are benefits to localising elements of financial support, the government should commit itself to reviewing the impact that this has on the key aims of UC and, if the evidence suggests the main benefits of UC have not been realised, localisation – particularly of CTB – should be reconsidered and, if necessary, reversed.

While the incentive to work for a few hours per week increases under UC, the financial incentive to work full time decreases for many and is only marginal for others. Given the problems posed by other barriers to work, particularly childcare

costs, are likely to persist, the anticipated improved financial benefits of working will not materialise for some groups.

6.2.4 Developing national minimum standards for emergency financial assistance

It will be critical that service users are made aware of how schemes are changing at a local level. Councils need to work with community organisations to ensure that service users are informed about new arrangements, and that eligibility criteria and access arrangements are clear and easy to follow. A set of national minimum standards would help to ensure a guaranteed level of service for users, while still allowing for local flexibility in provision. These should be backed by a system of redress that is transparent and efficient; given the nature of Social Fund assistance, service users will typically need a decision on payment quickly and this must be reflected in the design of local decision making and appeals systems.

6.2.5 Supporting progression in work

It is important that the in-work conditionality regime is balanced by a system of clear incentives to progress in work. This will require JCP and employment providers who are supporting claimants to engage actively with in-work recipients of benefits, and possibly employers, in new ways. Employment support for those in work must be designed to encourage claimants to stay in touch, motivate them to progress and be dynamic enough to also respond to local employers' needs.

The need for the focus of employment support to shift towards progression will be a key factor contributing to UC achieving its aims. Further research is required into how best to amend the WP payment model to encourage providers to support people to progress.

6.2.6 Embedding the user voice in service delivery and means of redress

The move towards a tougher sanctions regime and the introduction of in-work conditionality must be accompanied by sufficient and appropriate support to help people meet the terms of their entitlement and by a fair and efficient system of redress. Getting this balance right will require easily accessible channels for the user voice to be heard and DWP should not underestimate the value of user feedback as a tool for improving service delivery and evaluating the success of UC implementation. The DWP Customer Charter will remain in place but there is a case for appointing a far more visible ombudsman for the benefits and employment services system to whom complaints about service delivery and quality can be

addressed and who can undertake an independent assessment of how well the balance of responsibilities and service user rights is being met.

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