

# Universal Credit (Work-Related Requirements) In Work Pilot Scheme and Amendment Regulations 2015

## *Motion to Consider*

3.25 pm

*Moved by Lord Freud*

That the Grand Committee do consider the Universal Credit (Work-Related Requirements) In Work Pilot Scheme and Amendment Regulations 2015.

*Relevant documents: 16th Report from the Joint Committee on Statutory Instruments, 21st Report from the Secondary Legislation Scrutiny Committee*

**The Parliamentary Under-Secretary of State, Department for Work and Pensions (Lord Freud) (Con):** The regulations before the Committee today introduce powers to test a range of approaches to establish how we can best support working universal credit claimants who are on low earnings to progress in work and earn more. This is a core principle of universal credit.

I take this opportunity to update noble Lords on where we are with universal credit. Universal credit is now in almost 100 jobcentres. Some 55,000 people have claimed and almost 27,000 people—including couples and families—currently benefit from the much enhanced support that it provides. For example, we are seeing that universal credit claimants spend twice as long looking for work than claimants on current benefits. Two-thirds of claimants surveyed believe that universal credit provides better financial incentives to work and earn. Early evidence shows that universal credit claimants are taking up more work when compared to those people on jobseeker's allowance.

Universal credit is working for not just claimants but for employers, too. It removes the inflexibilities that exist in current systems and means that employers will now have access to a more engaged and flexible workforce—people willing to take up more hours as they are available without the fear of having to stop and restart their benefit claims. This is excellent progress and from next month we will roll out universal credit nationally. By the spring, universal credit will be in one in three of the country's jobcentres.

A key question we are now looking to address is how we will support working claimants who are on universal credit and in some of the lowest-income households, typically earning less than £12,000 a year. Our aim is clear: we want to help encourage, influence and support low-paid claimants who can earn more to progress in work and increase their pay. The potential benefits of this support are significant and wide-ranging. There will be more people working and earning more, and living more independently of benefits. We will strengthen our ability to tackle and reduce poverty. Employers will benefit, too. They will have a more engaged and motivated workforce and will benefit from the rewards that that will bring. To realise these benefits, it is crucial that we put in place the right help and support. It is a key reform, a unique challenge and it is transformational.

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I want to be open about the challenge that we face. It is no easy task. This is the first time any nation has attempted to support working claimants in such a large-scale way to increase their earnings. Because we are one of the first nations to try to do this, there is very limited evidence on what works. For this reason, we must run trials to learn what is effective. We must do things differently if we are to succeed. The approaches of the past—static trialling of rigid, fixed approaches—will simply not work here. We therefore must look to do things differently. Our approach to trials needs to be more flexible. We need the ability to tweak and change things as we learn about what works and what does not. This is about trialling to refine and perfect our approach. Having broadly defined trialling regulations, as we are discussing today, with clearly defined parameters and safeguards will allow this tailoring and tweaking. On the other hand, a traditional approach of defining every element of a trial would have left us locked into one approach, even if it proved to be ineffective. To test changes and variations, we would then have to stop and come back to Parliament to secure brand new powers to test something slightly different.

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The approach we are looking to take is endorsed by some of the world leaders in trial design and theories. Jim Manzi, a predominant expert in trial principles, is clear that many trials fail because we cannot accurately predict how people will respond. He recommends that, in order to understand what works, you must be able to be responsive in your approach so that trials can be flexed and adapted to learning. There is clearly a strong case to have the flexibility that we are seeking with the powers today.

I now turn to transparency. I am fully committed to being transparent about what we plan to test. I have given a clear commitment to share with the Social Security Advisory Committee details of any future trials under this regulation. We are also committed to publishing regular updates on universal credit, including details of our future plans, such as our publication in October 2014, *Universal Credit at Work*. We will also publish formal evaluations of these large-scale trials to ensure that our findings are available publicly. Noble Lords have my commitment on this.

I should like to spend a few moments outlining what we will do first with the proposed powers. From April 2015, we plan to launch the first large-scale trial in universal credit. This first trial aims to set the baseline for effective interventions of a core in-work service. In doing so, it will explore the impacts of providing tailored support based on the individual's circumstances, setting and embedding clear expectations for our claimants, and reinforcing the consequences of non-compliance so that claimants fully understand the implications of their actions.

This first trial will be delivered by Jobcentre Plus and will focus clearly on providing tailored, personalised support to low-earning claimants. These conversations will be led by our work coaches. They will be responsible for setting the relevant and appropriate goals and building the right aspirations. They will help the individual

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to consider what they could do to increase their earnings and they will also define what activities they should undertake.

Some of the activities that we will set will be mandatory, particularly where they offer a claimant a strong opportunity to increase their salaries. This is to encourage claimants to engage with the support on offer. We will also be testing the impact of the regularity of very challenging conversations with claimants on the progress they are making, comparing fortnightly discussions and conversations every few months. This overall approach will be tested against much lighter support that consists of two telephone calls with a work coach. This is our control for the trial, against which we will measure whether intensive treatment delivers better results.

We aim to trial this first approach with more than 15,000 low-earning in-work universal credit claimants across the country, subject to us seeing positive early results. Testing on this scale is necessary for us to gather robust statistical evidence to demonstrate whether our interventions are effective at helping people to progress in work. Importantly, the larger numbers give us more granularity in the data, helping us to understand not only whether something like this works but how it works and for whom.

It is also important to trial across a different range of geographical areas, hence the requirement to be able to test in many different locations. Local labour markets vary immensely from area to area, so restricting trials to just one or two areas would give us a less clear indication of whether something would work well across the country. The first trial will be run as a randomised controlled trial, perhaps one of the most effective ways to test new approaches. It is certainly endorsed as the gold standard approach by many external experts.

It is important that we do not lose sight of why we are doing these trials. It is to learn about the best ways to support and drive greater independence from benefits by getting individuals to earn and work more.

Given the challenge that we face and the clear need to test a range of measures, we are seeking regulations that enable us to test this and optimise the approach over time. The regulations are broadly worded but they do not provide unlimited powers. They set out clearly defined areas and parameters for us to test in, and provide a number of protections and safeguards to ensure we only require more from those who can do more.

I recognise that this is a marked departure from the more static DWP trialling approaches of the past. However, we believe that this more dynamic approach provides the best opportunity to build the evidence we need while retaining the right balance in safeguards and flexibilities. I commend the regulations to the Committee.

**Lord Farmer (Con):** My Lords, rolling out universal credit and optimising such a colossal and innovative system without an iterative process of trial and error should be inconceivable. I am grateful for the opportunity to discuss these regulations because I see them as a sign of a fresh wind blowing through large-scale publicly-

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funded social policy projects, which is an unapologetically experimental approach, as the Minister said, in the most robust sense of the word.

I also understand a randomised control trial methodology is to be implemented, as the Minister said, and it is the gold standard when it comes to experimental design. I am not a

social scientist: I am a businessman and conscious that writers such as Jim Manzi, as has been mentioned, have been taking my world by storm by insisting that leaders there can and should use what he refers to as RCT experiments to test decisions in a controlled, low-risk environment before committing their firms and shareholders to large-scale and expensive changes.

We owe it to the people who are the subjects of similarly large-scale social programmes and the taxpayers who fund them to test what we think will work best and learn from that process whether they are in fact being aided effectively and cost-effectively. Both are important.

The Washington State Institute of Public Policy has led the world by raising the bar for policy development in this regard. All sorts of approaches might make a little difference but let us sink our resource into the ones that will help people make the most progress. Honing the many facets of the most effective approach requires the iterative and flexible piloting legislated for in Section 41 of the Welfare Reform Act on which these regulations are based.

As one who is used to having a free hand when it comes to undertaking the necessary fact-finding and research prior to investing my own and my clients' money, I want to emphasise how innovative and important this flexibility is. As we have heard, static trials have been the standard fare of DWP research contracts but the Minister has already made clear how innovative the proposed assistance is. We have to roll out in-work support that ultimately could help hundreds of thousands to escape a low-income existence while, at the same time, testing and adjusting the assumptions different forms of support are resting on for a wide range of diverse people.

Moreover, it is my understanding that the DWP expects about 1 million universal credit claimants to fall within the "working but could do more" category. If the department wants to help such an enormous and diverse cohort effectively, it seems entirely appropriate that a flexible research model is adopted.

However, I have some questions. First, what does the 1 million figure represent as a percentage of all universal credit claimants and what benefits in terms of cost savings might there be to the country if people can be consistently helped to overcome barriers to raise their wages? In other words, what is the great prize that these trials can place within our reach?

Secondly, I am pleased to learn from the September 2014 minutes of the Social Security Advisory Committee that detailed guidance will be given to work coaches on the pilot, so that anyone randomly chosen to take part in this test-and-learn approach who is deliberately working fewer than full-time hours in order to get a business off the ground will not be forced to take part. A research agenda must not become the tail that wags

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the dog. Forcing someone to accept help to build up their hours when they are already taking steps to improve their circumstances and possibly even to employ others would be a perverse use of public time and money. It would also undermine the purpose of the trial.

Obviously, there need to be two-way safeguards. Selected claimants may be particularly concerned about complying with all the requirements placed on them under universal credit, not least to avoid sanctions, as they may be in a financially precarious position. They may not

realise that there are exempted categories in the guidance. Will the Minister give an assurance that all people who are chosen for trials will be made fully aware of the characteristics, including permanent disability, that mean that their involvement is not mandatory? Given the lack of public and media awareness of exemption for many disabled people from the withdrawal of the spare-room subsidy through the use of discretionary housing payments, I suggest that all effort is made to make this clear from the outset, to avoid much worry and the proliferation of misinformation.

Thirdly, although my head believes that flexibility is indispensable, in my heart I worry a little about the power over claimants' lives that these regulations are giving to researchers. The Minister mentioned tailoring and tweaking. The 21st report from the Secondary Legislation Scrutiny Committee referred to the very broad nature of the powers permitted by this instrument and raised similar concerns to mine over the transparency of research design and process. Will the Minister say how we will know when researchers have made modifications to these? As the Secondary Legislation Scrutiny Committee also asked, what controls will exist on the extent of these trials?

Finally, my wholehearted support is behind this Government's ambition to help a million universal credit claimants to increase their earnings, but is the money to embark on this vast exercise in the departmental business plan for universal credit?

**Lord German (LD):** My Lords, I start by thanking the Minister for giving us an update on where we are with universal credit—27,000 people and 100 jobcentres. I wonder whether I can tempt him to tell us where we might be by the end of April, for example, with the number of people who are receiving universal credit and the number of jobcentres that are supplying it. It is important to note what progress we are seeing.

In-work progression, which is the target that this pilot and these regulations are trying to attach themselves to, is one of the challenges of the next five years. I believe that we will find that this area requires a great deal of attention. It is an issue that relates to a drop in unemployment, so we have to make sure that those who are in employment are given the best possible hand-up and help. I could not help having a wry smile when my noble friend referred to the way in which DWP does this sort of trialling, saying that it was unique and distinctive. I congratulate him on that because we need to find out how universal credit has been doing. As you find out, you adjust, you change and you move on, rather than having a simple blanket approach, which is a recipe for difficulties in the future.

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However, there are issues, and I welcome the comments of the noble Lord, Lord Farmer. I particularly welcome what he said about the wind of change. I wonder whether this is a sign of Harold Macmillan coming back to see us again and a revitalised way of looking at social policy. I raise that as an interesting point.

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In the challenge of finding a way of developing and helping in-work progression, given the flexibility that has been given by these regulations, there are issues which need to be pinned down. As far as I can judge—my noble friend will tell me whether this is right—paragraph 7.1.2 of the Explanatory Memorandum sets out the four areas or themes which will underpin

these pilot studies. Is that a suitable balance between sticks and carrots? The detail we are given is quite limited on the support we can offer, the role of employers, the impact of conditionality and using financial levers. In any striving to help people to progress and to develop their income, it is important that there is a range of levers, some of which are going to be sticks and some of which will be carrots. Will my noble friend indicate whether in his view that balance is adequately described?

It is true, as my noble friend said, that there is very limited evidence on what works to help people get improvement in their earnings. Starting early with this challenge as universal credit rolls out is an important way of helping those who are trying to strive and find their way out of in-work poverty.

My question is about who will be selected in the random sampling. Perhaps I have not got this right—my noble friend will correct me—but I understand, for example, that a single claimant who is not responsible for a child or qualifying young person would have to be earning less than £111 a week to receive universal credit, without any housing element. That is the kind of level at which we are trying to assist people so that their earnings rise beyond the figure where they no longer qualify for universal credit. These figures are found in Annexe 1 of the impact assessment on universal credit produced by the Department for Work and Pensions. It has also been updated. However, I do not know whether it is completely updated in terms of the current position in relation to universal credit work allowances.

My second point has been alluded to by the noble Lord, Lord Farmer, and is about what sort of people might be included or excluded. Will people with disabilities be included or excluded? One of the challenges this country faces is ensuring that people who have the ability to work but who have disabilities are able to find and get work. It would be useful to know how that category will be determined and whether there will be other exclusions from the random sampling.

Finally, I have a statistical question. I may have heard my noble friend incorrectly, but I thought he said that there could be up to 15,000 people involved in this piloting, testing and trialling work. At the moment there are 27,000 people on universal credit. A pilot of 15,000 out of 27,000 seems an extensive test. It would be more than half the people on universal

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credit, which is why I return to my first remark which encouraged my noble friend to tell us where we might be on numbers on universal credit by the end of March.

**Baroness Sherlock (Lab):** My Lords, in thanking the Minister for that explanation, I am expressing more than just the usual courtesy. As has been alluded to, the Secondary Legislation Scrutiny Committee commented on the very wide nature of the powers that the Government are seeking through these regulations and the remarkable paucity of information in any of the material available to us about the way in which they intend to use them. Therefore, although I am very grateful, and without sounding too churlish, I would rather have had some of that information so that I could have considered it more carefully before getting to the stage where we are asked to consider the regulations. I will do my best, but I may end up intervening in the Minister's reply. I hope that he will bear with me if I have misunderstood some of the information that he gave us today. However, I thank him for it.

The Minister mentioned that these powers are very wide, and that is certainly true. This is quite an interesting point for us to be at. We discussed the question of in-work conditionality extensively when the Bill was going through this place, particularly in Committee. One reason that it is so worthy of attention is that it is very new. The Minister mentioned that it is new internationally, but certainly people currently in work are going to get a bit of a shock. At the moment, if you have been on benefits and you get a job, you do not expect the department to ring you up at work saying, "Come and talk to me because you're not working enough". I think that people who feel that they have escaped the tender ministrations of the jobcentre are going to be a little taken aback when they find that it starts following them to work.

I wonder what thought the Government have given to this cultural shift and how they are going to engage with people who, when they think they have done the brilliant thing of getting a job, will find that it might be a job but it is not good enough, not big enough or not well paid enough. Under the current system, if someone is working at least 16 hours a week, they can claim tax credits. However, under universal credit there will be no minimum hours requirement, which is the Government's reason for introducing conditionality for people in work.

I should like some clarification on how this is going to work. Some points have been touched on by the noble Lords, Lord German and Lord Farmer; others have not. First, in the various pilots, will there be the same level of income which triggers entry to or exit from the scheme? I am also interested in hearing the answer to the question from the noble Lord, Lord German, on what that level of income is. Will the income threshold be the same for a household or a benefit unit—the rather ugly phrase favoured by the DWP? In other words, is it a threshold for each individual in a household of, say, two or more adults, or is it for the whole household? For example, if one person in a couple were earning more than the threshold for two individuals, would the second person then not be under any pressure to increase their hours, change their working pattern or increase their income?

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Next, the Explanatory Memorandum states that the DWP will impose,

“different sets of requirements on different groups of claimants selected for the pilot”.

The Minister began to outline how that might happen, but the committee's report flagged up the ethics of an approach which deliberately seeks to test different approaches to claimants simply to work out the behavioural impacts. The noble Lord, Lord Farmer, commended the benefits of randomised control trials to test the evidence if done in a low-risk, controlled environment. However, the problem here is that the risks are not merely to the resources invested by the state but the impact on the individuals. Can the Minister tell us what discussions the department had about the ethics of that? I will come on to the question of sanctions in a moment. In a randomised control trial of, say, pharmaceutical drugs, there can come a point where a trial is stopped because it becomes clear that the evidence is very strong one way or the other and, as the drug is so effective or so ineffective, allowing a control group to carry on without it or continuing to give it to the group being tested would simply be unethical. Has any consideration been given to how the ethics would be weighted as the requirements are imposed and the evidence starts to come in?

Next, I turn to the numbers, which the noble Lord, Lord German, began to prod. I am very interested in them. I think that we all want to know what the denominator is. Are the numbers going to change? If we start off with, say, 15,000 out of 55,000, is that going to change proportionately? Will we see a different proportion of the universal credit claimant base involved all the way through? What proportion of that 55,000 will be eligible for the scheme? It presumably includes some people who would not, for a variety of reasons, be eligible, so that is not necessarily the denominator. What is the denominator? This was something that the Secondary Legislation Scrutiny Committee specifically asked the Minister to tell us, and I shall be very interested to hear what he can tell us about this.

I am also interested in having more information about the control groups. The Minister mentioned one control group, which I think he said would get just the occasional phone call. How big will that control group be, and can he tell us more about it? Will it be spread right across the country? Will it cover the full range of categories of claimants who will be covered by the other pilots? Will that change as different categories of claimant come on-stream with universal credit? That question applies also to the pilots. Will the pilots cover all the different categories of claimant as different kinds of people are brought on?

Secondly, on the flexibility of trends, I understand why the Government want a flexible power to tweak things as they go. However, coming back to the points made by the noble Lord, Lord Farmer, I want to understand how that impacts on the Government's ability properly to evaluate the evidence. If you try to compare the effectiveness of a strategy with the control group but you are constantly tweaking things, how good will the data gathering be? How well will the department be able to understand the causality to enable it properly to understand what happens? The state

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generally does not always have a great track record on this. If we are to spend all this time and money on a trial, as well as put people through it, we want to be really sure that the findings are robust. I am very glad that the Minister committed to publishing the findings, but we want to have confidence and know the study is replicable. If it is tweaked too often or becomes too different, it will be quite hard to evaluate that. Could the Minister explain that?

Next, could the Minister say a little more about what kind of support will be offered to people in work? He indicated what kind of pressure or interventions there are in terms of encouraging them to come in, but what help will they then be given? I seem to recall that this was advocated at one point by saying, "People get lots of help to develop their careers if they are high-flying executives, but get nothing if they are lower than that". What actual help will be offered to them? Will it be mentoring or work coaching?

Then there is the voluntary or otherwise nature of this, which was flagged up before. Again, will any of the pilots make this a voluntary option or will it always be compulsory? This point was raised in the other place by the Conservative MP Nigel Mills, who in fact suggested that the Government trial both. He also asked how soon after taking a job in-work conditionality would kick in. For example, if I got myself a job for 16 hours a week, it goes really well and I have been out of work for a long time, presumably the department would not ring me up on week two and say, "No, tough: you now need a better job on 30 hours a week or one that is better paid". How long will a claimant get in a job before in-work conditionality kicks in?

Next, and this is a really important point, can the Minister tell us more about how caring responsibilities will be taken into account? This is something that exercised the Grand Committee considerably when the Bill went through the House. I have met many people in this circumstance. The noble Lord is aware that in the past I ran a charity that worked with single parents. We ran programmes helping people into work. We often found that lone parents took a job, say on 16 hours a week. One of the reasons employers liked these people was that they stayed in the job a long time so the employers had much lower turnover than with some other employees. One of the reasons that the lone parents stayed a long time was that they had found an employer who enabled them to combine their job with their families. For example, the employer would be flexible if occasionally a child was sick or if the employee had to leave early because a problem arose at school. The employee would be very loyal to that employer and stay for a long time because it worked for both of them. However, it meant that they might work fewer hours than they were capable of. I am just concerned—and raised this in Grand Committee at the time—about what happens to those people and what pressure they will be put under. Presumably, we would not want to see a lone parent who had been in a very successful job for maybe 10 years but at 16 hours a week being pushed into giving it up to take a better paid but less flexible job that she might have to give up anyway or that could be less secure. How will the Government deal with something like that?

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Also, how will they consider the impact on childcare? I raised the issue in Grand Committee of a lone parent of a 13 year-old who began to have problems at school. That parent had taken a job of 25 hours a week because that enabled her to get home in time to make sure that the teenager came home from school and was not out on the streets having “difficulties”. If she were required—the implication is that she now would be—she would have to take a job of, say, 35 hours a week at minimum wage. She could also be forced to do 90 minutes’ travel either way because that is what the guidance says. Those are then very significant hours, and getting childcare for a 13 year-old is not easy. It is not often available, and it is very hard to get them to accept a child like that. So how much flexibility will be there?

I do not apologise for the large number of questions as these are very significant matters. Next is the issue of sanctions. Is it intended to use the full range of sanctions available? In other words, could somebody lose all their universal credit for three years for failing to take action that they were advised was necessary to increase their hours or earnings, such as, for example, that lone parent? What if someone is concerned about jeopardising their existing job for other reasons? It has been confirmed that universal credit claimants will have to take a zero-hours contract, although not an exclusive one. If they were, for example, required to take additional hours at short notice but were also expected to take a job interview elsewhere or meet their adviser to think about getting a different job, they could be at risk of jeopardising things.

**4 pm**

We have had problems in the past where a Work Programme adviser, for example, asked someone to come to an interview, and they were not able to do so for a very good reason—they might have had a job interview or they might have been asked to work extra hours—but they were still sanctioned and had to appeal. They would be successful, but the Work Programme adviser had to say, “Even though you had a perfectly sensible reason—you had a

job interview or you were in hospital—I still have to sanction you. You go through an appeal and I am sure that when you get to it, the DWP people will make it okay”. That is hugely stressful and, frankly, a waste of everybody’s time and money. Could the Minister tell us how that will work?

I have some other questions about the scheme. What will be the success measures of the pilots? Is the aim to see people earning more, working more or just stop getting universal credit? Will the DWP be tracking all of those things? For that to work, it would have to track people on what happened to their earnings and working hours, even if they left universal credit altogether. Can the Minister confirm that it will be doing that?

Who will deliver the support? Will it be the jobcentre staff or will it be outside contractors? Can the Minister confirm, for the record, what the resource implications will be? The Explanatory Memorandum states that there is no impact on the public sector. That seems improbable: at least I hope it is improbable. The Secondary Legislation Scrutiny Committee said:

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“It is, in our view, misleading to say there is no impact on the public sector: provision may already have already been set aside for piloting and no additional costs are envisaged, but the testing will cost up to £15 million”.

Could the Minister confirm that?

There have been some issues about the effectiveness and value for money of the various previous labour market trials, and I will not dwell on the private misery pointed out by the National Audit Office, which reckoned that only two of the 14 trials had been seen to be effective. When these regulations were considered in another place, my old friend Stephen Timms asked whether in-work conditionality and the work around it had been included in the strategic business case signed off by the Treasury last autumn or would be included in the outline business case, which we believe is going to be coming in the summer this year. The Minister was unable to answer then, but said that she would look into it. Since there has been a reasonable gap between that committee and this, is the Minister now in a position to provide that information?

There are a large number of questions, and it is quite possible that more might emerge from the Minister’s answers. I will be very grateful if the Minister will do his best to share the answers with the Committee.

**Lord Freud:** I thank noble Lords for what has been a series of good contributions to this debate. These regulations are driving at a very simple question: how best can we support lower-earning, universal credit claimants to progress in work and increase their earnings? Let me try to deal with all the questions.

My noble friend Lord Farmer asked how many people would be affected in relative terms. As he said, there are about 1 million universal credit claimants in low-paid work and that is as a proportion of a total of 7.7 million people. We cannot at this stage quantify the monetary

benefits of that in-work support. One of the reasons for these trials is to find out whether it is cost effective to provide support above the bare minimum and whether we get a return. However, universal credit has, bluntly, astonishing returns on its investment, saving the Government and the taxpayer £38 billion from now until 2022-23. When it is fully in, it will have an economic benefit of £7 billion a year.

I was urged by my noble friend Lord German and the noble Baroness, Lady Sherlock, to give extraordinarily precise figures on this. We are ramping up very rapidly now, and by spring, as we said, we will be in one in three jobcentres; we are currently in about one in eight. Clearly that implies that the 15,000 people will be a much smaller proportion of the current 27,000 that we see. However, I am not in a position to give more numbers.

As to the balance between sticks and carrots, an issue raised by my noble friend, most of the areas we are looking at will focus on how we support and help people. We need to learn how to do that. At the same time, we are working closely with employers. We have implemented a couple of programmes to find out what kind of support and incentives work. There is a great deal of emphasis on the support element. Basically, the intensive work coach discussions are a kind of mentoring process in which one goes through the options.

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All noble Lords who have contributed are interested in the safeguards that we have in place. There are a number of regulatory safeguards to ensure that conditionality is applied to claimants only when it would be appropriate. The trials are limited to those in the all-work requirement conditionality group. In other words, they explicitly exclude those who are disabled, an issue which was of some concern. Claimants in the other conditionality groups will not be part of these trials and those in specific circumstances, such as recent victims of domestic violence, will be excluded from the outset.

Beyond that, as a more formal protection, we realise that claimants will have individual circumstances and it will be for the work coach, after discussions, to work out what the tailoring requirements should be. That will give the work coach the scope to set reasonable, achievable requirements and earnings goals, taking into account the kind of commitments mentioned by the noble Baroness, Lady Sherlock, in regard to caring responsibilities and so on. The result will be a personalised claimant commitment that places reasonable expectations on clients.

My noble friend made a point about transparency to Parliament. Given that we are trying to ensure that we have an accountable and flexible process—that is the delicate balance that we are trying to achieve—for transparency we will share information as we change the trials with the Social Security Advisory Committee. We will do that by letter and I shall ensure that the information is placed in the Library so that Parliament can see what is happening.

In response to a question from my noble friend, we are discussing with SACC the issue of self-employed people trying to start businesses. We will take account of that circumstance, among others, and people building businesses will be able to do so and guidance will be provided.

In response to the noble Baroness, Lady Sherlock, the regulations expire after three years of being in force. Where we need to gather more evidence, we can extend these regulations by a

further period of up to 12 months without returning to Parliament. Such an extension does not expand the powers within the regulations, which strictly define limits to testing work-related requirements and will have been subject to full scrutiny. All it does is extend the period.

My noble friend and the noble Baroness, Lady Sherlock, asked about the business case, the question asked by Steve Timms. A letter has been sent to Steve Timms, which I can give chapter and verse on. The strategic outline business case approved contained a light-touch regime and £15,000. The objective of that £15,000 was to find out, against the control of that light touch, whether we can do better.

The core of the question asked by the noble Baroness, Lady Sherlock, was about how we treat people. The real protection, which is not explicit in the regulations but is nevertheless there, is that under these regulations our expectations of in-work claimants cannot exceed what we expect from out-of-work claimants. The level

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and extent of sanctions will therefore be within those existing constraints. That is the constraint we have for this trial.

Getting into some of the detail of the trial, the reason there is a figure of 15,000 is that 5,000 are the control. We are looking at two main types, which I described in my opening remarks. Then we will segment that 5,000, looking at four or five different categories and geographically. That is how the numbers add up as we run this trial to 2016.

As we see people, we will start supportive conversations with them almost immediately. We will start to have tougher conversations after a person has been in work for two months. That is the initial testing. I think I have dealt with carers.

Ethics are a very interesting issue as we move into other, more elaborating trialling. This first trial is rather straightforward and is within the context of the kind of conditionality we do anyway, and we have a requirement to be reasonable to the individual with the safeguards I have described. However, I appreciate the point the noble Baroness made that for future trials and as the system develops we may have to think about ethical controls more on a medical model. For this trial, we have SSAC overseeing it, which means there is a group of experts having a look as we run along.

The noble Baroness asked about couples versus individuals. Members of a couple are treated as joint claimants so their earning threshold is set on a joint basis and conditionality is imposed on the basis of their combined income. If that exceeds the household threshold, neither partner will be part of the trial. That reflects the underlying philosophy of universal credit.

### **4.15 pm**

I was asked what kind of help was on offer. I will quickly run through some of the elements that we are expecting to test. There will be an underlying expectation that they will take all reasonable steps to increase their earnings in return for the support that we provide, which includes a clear understanding of what is specifically required; a motivation process, to encourage them to progress in work and take action, which could be around skills acquisition;

help to identify what is realistic; giving responsibility to the claimant to identify opportunities—that is the new philosophy, whereby we are coaching and not telling people; help in having the right conversations with their current employer about what the opportunities are; looking at what the barriers to progression might be—in confidence or motivation, or in skills or childcare; looking to what support is available to address those barriers; and providing supportive and challenging conversations on action and progress.

Clearly, sanctions are there to deter non-compliance. We are testing what a mandatory system would be; there would be no point in having a voluntary system in the testing when you are trying to test for a national system. All that builds very much on what we have learnt and—again, through our test and learn approach—developed about the role of the work coach to give responsibility for individuals. We are moving that approach, which has been very successful, into this new sphere.

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We will tweak trials once we have learning and evaluation to show whether it is the right thing to do. Sometimes one can learn pretty fast, but sometimes it takes a bit of time. The noble Baroness will be delighted about how we are going to track information. We now have an astonishingly valuable tool of real-time information; we know what people are earning, so we can now measure the effectiveness of trials. We can start to do a lot of trials, because we can relatively cheaply see what is happening by earnings.

I must pick up the noble Baroness's throwaway line about the value for money of previous trials, about how only two of 14 were effective. The expert on this, Jim Manzi, to whom I have the privilege of talking on a couple of occasions on other issues, said that one in 10 trials finds you something. That is the whole reason why we need to do so many, because the fall-down rate is high, and that takes us back to why we need the flexibility and dynamic approach, which is something that Governments have not done because of the restrictions.

The noble Baroness asked about pressure and when we would talk to someone about looking for a new job. We will have to take individual circumstances into account. Sometimes, it may be reasonable to expect people to take up new employment, but we will never impose a sanction if claimants have a good reason not to do so. I think that the noble Baroness picked up on some of the reasons that would be accepted.

Not only does the system have to work but it has to be cost effective. The cost of making these interventions could be very substantial if they were intensive. We need to know that they are value for money, and that is one of the key tests when we establish what a national system will look like. Then there is the question of how the controls look. We will keep that control group of 5,000 constant. The control element is that light-tough regime, which is already in the universal credit business case.

What are we looking for? We are looking to help people to earn more, which is not just about looking for more hours; it could involve more skills. We will find that out. That is a good outcome. I think that I have dealt with all the issues.

**Baroness Sherlock:** The Minister has done very well. I do not like all the answers, but he has done very well at trying to address many of the points. I will just pick up a couple of them.

First, can he tell us who will deliver the support? Will it be Jobcentre Plus staff or others, and what are the resource implications for the public sector? On the business case, if the £15 million and the light-touch control group are in the original business case, what about the rest of it? I may have misunderstood his comments on that, but where is that to be found?

As for tracking outcomes, obviously RTI works for those who are paying tax and national insurance, but for this to work properly the Government would also need to track people who were not to be found on the system and to find out why not. I am sure the Minister would rebut this, but there is a growing concern—he will have seen both recent media reports and the work of the Work and Pensions Committee—that the ways

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in which sanctions are being imposed at the moment are completely arbitrary. The only success measure for Jobcentre Plus staff is how many people are driven off the benefit rolls rather than into work. No one bothers to find out the numbers, but the suggestion is that only about one-fifth of people leaving benefits go into work—nobody knows what happens to the rest.

This was a real issue, as I am sure the Minister is aware, in one well known phase of welfare reform in the United States. Researchers tracked people longitudinally and found that a lot of them had simply ended up dropping out of the system completely. At this stage I am not making a value judgment about that, but for this to be properly effective the Government would need to follow those people through and find out what had happened to them to understand what the consequences of that were.

The Minister mentioned skills and the kind of support that is available. If one of the barriers to someone's progression that is identified is a lack of skills, will the pilots be able to provide skills, or resources to enable people to get skills, which might enable them to earn more and break free of the threshold that would be constrained by this? I also asked whether the same income threshold would be applied for entry to or exit from all the pilots. Is that one of the things that is going to be flexed in any way? Is it the same for all of them?

On the question of ethics, the Minister said at the start that these regulations comprise strictly defined limits. In a manner of speaking they do, but only in the sense that I am strictly defined by the law of gravity, which still gives me quite a lot of latitude in how I go about behaving. The Minister also said that he will give us no information on numbers. Presumably, that could theoretically mean that the entire universal credit population could be put into this without any need for further recourse to Parliament. Is that right? In other words, when does this stop being a pilot? I am trying to establish whether the regulations were really designed to be able to pilot something. The scale of this is such that I am beginning to wonder whether Parliament would really see this as being a pilot. Although I am very glad that the Minister is going back to the SSAC, there is no obvious way to scrutinise this here. Will he give some more thought to that?

Finally, I want to clarify something relating to the sanctions. If the Minister is saying that the requirements will be no worse for people in work than for those out of work, my response would be that I would hope not, otherwise the incentive for getting a job would seem to be rather small. However, that presumably means that somebody could lose all their universal credit for three years for a failure to comply with a brand new requirement exercised by his

staff—something that has never been done before. Is the Minister confident about that? I realise he has said that nobody will be sanctioned without good cause, but we both know that there are plenty of examples of people who have been simply because there is a significant amount of error in the way that the guidance has been applied. Cases are constantly being brought forward, and he will be aware of that. How will he check up on that? How will he quality-test the nature of that?

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I am aware that I have asked a lot of quite specific questions. I would be grateful if the Minister, with his normal customary kindness, would allow his officials to go through the record and write to me on anything that has not been picked up.

**Lord Freud:** I will certainly go through the record but I am doing my best to answer everything. There is a technical question about income in and out. At the top end, a single person stops being in this trial when he or she hits 35 times the minimum wage—I think, from memory, that it is £116-something. I may be corrected, but that is the top end. The bottom end for a single person is, effectively, £76, and for a couple it is £116, we think.

Essentially, we are trialling this group because people would have come off the out-of-work benefits system at 16 hours times the minimum wage up to where they would get out of conditionality entirely because they would have satisfied 35 hours times the minimum wage. We do that for singles and couples. My figures are being hastily checked but that is the principle behind the answer.

**Baroness Sherlock:** Is that for all pilots? It is not a variable?

**Lord Freud:** Yes. Let me make absolutely sure that I have got the figures right. It is £76 for the individual. However, it is not £116 but £126 for the couple. The figure for an individual at the top end which gets you out of conditionality is £230. So it is within that range of earnings. Clearly quite a lot of people may be doing fewer hours if they are earning rather more.

**Baroness Sherlock:** I am grateful to the Minister and I thank him for establishing those ranges. However, what I am trying to get at is whether exactly the same ranges will be applied in all the different pilots, or are the Government testing whether the ceilings should be set at different levels?

**Lord Freud:** We are going to stay in that range because that is the group for which in-work conditionality would apply. There is no point in testing other ranges. However, we will have information, which I think is the underlying point of the noble Baroness's question, on how different segments of earnings within that range respond to the different types of regime.

**Baroness Sherlock:** The Minister is being incredibly helpful. I apologise for my having to work this out on the hoof, but I think the Minister is saying that only people whose earnings are within that range will be subject to a pilot. I am trying to establish whether people who are at different points in that range may be subject to different trials. I will say that again. Will people on the same income within that range be subject to different pressures or levels of support requirements?

**Lord Freud:** The answer to that is no. We will put people in within that range. We will then have a process of personalising and tailoring the claimant

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commitment, which may contain an element of what their earnings are or could be. So I can answer no and yes. It will not be done at a mechanical level but may be done at an individual level.

**4.30 pm**

**Baroness Sherlock:** I am very grateful to the Minister—I had not understood that at all. In that case, we are saying that each of these 15,000 people might have a different target of earnings that would allow them to exit from the conditionality and the programme. That raises some very significant ethical questions and I would strongly ask the Minister to consider giving more thought to this. I am very slowly doing a PhD. Before I am allowed to do anything involving other people—human subjects—I have to go to an ethics committee which puts me through my paces quite carefully. The consequences here are not just differential levels of support but that, potentially, two people in almost identical circumstances might do the same things, but one would lose three years' worth of universal credit while the other loses nothing. That is a radical step for the Government to take. Has the Minister really thought through the ethics of that?

**Lord Freud:** This is how one delivers personalised support. The claimant commitment is in the system. Elements of the claimant commitment have a mandatory aspect but with others it is just an agreement. In reality, in the trials we will set the claimant commitment rather carefully. It is an agreed document between the work coach and claimant. Elements of that claimant commitment may be mandatory but quite a lot of it will not be. The likelihood is that as we run the trials we will look extraordinarily closely at making sure that we do not have any unsatisfactory sanctioning behaviour. We will test for that. This is a trial.

Although 15,000 people sounds a lot, when universal credit is fully rolled out, we will be dealing with 20 million people—8 million-odd households, comprising 12 million-odd adults and then a number of children. We are talking about a very small number so that we can micromanage it in terms of that kind of concern. The noble Baroness, rightly, is focused on us getting that right, and we are utterly conscious of that particular issue. The numbers will allow us to make sure that there are not those kind of arbitrary differences, as she described them, particularly when the sanctioning regime can move quite rapidly.

Skills is clearly one area where we could do a lot more development as we find the programme beginning to work. In this first trial, we plan to signpost the National Careers Service and colleges. There will be money available to support that through the adviser discretionary fund.

On RTI, the figures are that around 94% of people in formal employment are captured in the PAYE process. Some self-reporting may be required but we will get the bulk of them. Clearly, we will look at other things than just the RTI, but the RTI should give us a good feel for this. We will look at whether there are some anomalies going on where people fall off the system. That is one of the most important things that we will find out from the trial.

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The light-touch regime in the business case is funded. Clearly, we will only introduce a less light-touch regime if it offers value for money. That will be part of a negotiation, if we discover it is worth doing. We will not spend hundreds of millions of pounds on a regime that somebody made up in a darkened room when it has no effect. That is why we are doing these trials. Who will deliver these trials? To start with, it will be Jobcentre Plus, as I have described. That is the first iteration; we could go on to other iterations. I described, I hope, the light-touch regime, which involves two work coach conversations. One happens when someone enters work and the other occurs eight weeks later. That is what the control is based on.

I think that I have dealt with the question of sanctions. The noble Baroness will be quick to correct me if I am wrong, but I think that I have covered everything. However, on her point about the numbers, by March, we will have moved to one in three jobcentres. I am sure that she will be the first to acknowledge that, and she will have seen the escalation: 54,000 have already applied for universal credit and the figure is moving up rapidly. That is when we will start pulling out the people on universal credit who are in work to test them.

This is about the commitment by this Government to deliver a universal credit that genuinely supports working-age people when they are out of work and then in work. It gets rid of the distinction which, in my view, has been invidious in our support system. If we are going to do that, we have to understand how best we can support the in-work claimants and get them to get their earnings up. The regulations before us today combine oversight and flexibility in the optimum way.

During the passage of the Bill I was very clear that, in driving through this approach, we would do it through a regulatory structure, so that we could have these debates, keep an eye on it and get that balance. It is a very delicate balance but we will build an evidence base on how we can improve people's careers and improve earnings among the low-earning. If we get this right and learn how to do it properly, this piece of research will be a key element in improving the economic performance and productivity of the country. That and the fact that people's lives will be better when they earn more are the two fundamental reasons that I commend these regulations to the Committee.

*Motion agreed.*