Appendix 1

London Assembly Economy Committee – 20 November 2018

Transcript of Item 5 – Self-employed Londoners – Managing Finances Under Universal Credit

Susan Hall AM (Chairman): This brings us to today's main discussion item on self-employed Londoners managing finances under Universal Credit (UC).

We have a wonderful set of guests. Thank you all so much for attending. I know Ben [Fell, Senior Analyst, Policy in Practice] is on his way down and will join us shortly. We have Neil Couling CBE, UC Director General, Department for Work and Pensions (DWP); Kayley Hignell, Head of Policy, Citizens Advice; Andy Chamberlain, Deputy Director of Policy, Association of Independent Professionals and the Self-Employed (IPSE); Faisel Rahman OBE, Managing Director, Fair Finance; and Zoe Charlesworth, Policy and Product Manager, Policy in Practice. As I say, Ben will come soon.

If I can start off the questions to Neil, please, can you explain why it was so important for the Government to introduce UC and some of the problems of the old system?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): The problems with the old system are many, but essentially boil down to the fact that work is not incentivised to the extent to which the Government would like to see it in the old system, and the disincentives to work are many. They can be the fact that it is very difficult to progress once you are in work. There is a very high bar to get over in terms of losing your entitlements when you first go into work. The fact that you have to deal with three different agencies when you move between work and unemployment - or the other way around - disincentivises people from taking short-term opportunities. And under the old system, because it was an overlapping particularly of the tax credits and Housing Benefit systems, the rates of withdrawal on people's entitlement are very high. For lone parents it can be as much as 90 or 95 pence that is taken back in reduced benefit should you earn an extra £1. UC is an attempt to smooth all of those cliff edges to make the journey into work much less hasslesome for claimants and to support people in work with higher rates of return from that work so that they see more of the money they earn ending up in their pockets and not being withdrawn through the benefit system.

Susan Hall AM (Chairman): Can you set out how UC works for self-employed people and what advantages it would bring them?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): For most people in self-employment, UC works in exactly the same way as it does for employed people on UC. It is worth bearing in mind that by the time UC has finished rolling out, over half the people on UC will actually be in employment. It is worth keeping that in mind when you think about some of the design choices we have made.

For self-employed people in particular, we had some worries about the way in which the legacy system was working for them. In the United Kingdom (UK) economy, there are currently 800,000 unfilled vacancies for employed work. When you look at the earnings of people from self-employment at the lower end of the earnings distribution, they are very low for self-employed people at about £10,800 a year compared to, on average, about £20,000 from employment.

Therefore, we looked at within the system trying to incentivise people for whom self-employment is not providing a level of support to lift them out of poverty, whether they would be incentivised to do more self-employment, to take a second job if that was not going to remunerate them to the level required, or consider leaving self-employment and going into one of these 800,000 vacancies that we have in the economy. As I say, if you are above a certain level of earnings on self-employment, you are treated in exactly the same way as you are for employment, but if you fall below that level, we try to incentivise you into taking some steps to raise your level of earnings.

Susan Hall AM (Chairman): Much has been said about this. Kayley, if I come to you, what is your view?

Kayley Hignell (Head of Policy, Citizens Advice): One of the challenges for self-employed people on UC is quite similar to that for those who have fluctuating earnings or are in some other form of non-traditional employment. People who do not get paid on a monthly basis and people who do not have a regular wage that is the same and is paid on the same day every month face particular challenges because of the way UC is calculated. For self-employed people, we know that fluctuations in income are more common, either because of seasonal variation or just month-to-month having differences in income.

In some ways, UC has an advantage here in that it prevents you having massive overpayments because it checks your income each month. In other ways, it does create challenges for people to have a steady income across those months.

What we see for self-employed people in particular on top of that challenge in the design is that if you are above the minimum income floor - the threshold that Neil just mentioned - you are treated exactly the same. Once that hits somebody, it means they can be worse off compared to an employed person. It is the first time that we see in the benefit system that the way you are earning money counts as much as how much money you earn. Traditionally, we would see the levels of income making the difference. If you earn less than the minimum income floor, which is roughly set at the Minimum Wage for however many hours you are expected to work, you will see that UC will not top up your income to make sure you have enough to live on. If you go above it, UC will take into account that income and will reduce your UC payment. That is how, when you compare an employed person to a self-employed person, the self-employed person will be worse off if they do not hit that threshold of the minimum income floor.

There is a challenge in terms of businesses making sure that they are viable businesses and making sure that businesses provide people with enough income to live on, but the design of the minimum income floor means that this also hits people because of that fluctuation in income, not just because over the year they are not earning enough. Over a year a self-employed person could earn enough to hit that threshold but, depending on the month they are looking at their income, they could be lower and then penalised by that threshold. Again, it is not just about a penalty for the annual income; it is a problem in terms of the fluctuation of people's incomes that UC brings as an extra challenge.

Caroline Russell AM: I just wanted to ask something specific about the minimum income floor. People who are self-employed are dependent on invoicing and people paying them. With late payments and things like that, where is the minimum income floor calculated from? Is it from the moment you invoice or is it from the moment you receive the money?

Kayley Hignell (Head of Policy, Citizens Advice): UC is calculated on a monthly basis. It is not calculated, say, January, February, March. It is based on a month from when your claim goes in and then the DWP assesses how much money you get during that time and then comes up with a payment at the end of it, depending on how much you have earned that month. With your schedules of invoices, it just depends where it falls in that month as to which assessment month it will affect.

What we find is that the date of your income makes quite a significant difference. If you get paid just before your assessment period is due to end, then UC can work in a way that tops up your income. If you get paid just after that assessment period, UC can exacerbate peaks and troughs in people's income. The date of your payment, how regularly it comes in and how much it fluctuates make a difference to whether it smooths your income and whether you are better off over the year.

Shaun Bailey AM: Just quickly, can you give me some idea of what kinds of numbers of people we are talking about in London who are self-employed and also claiming UC? What kinds of numbers are we talking about here?

Kayley Hignell (Head of Policy, Citizens Advice): For the general population, we are talking about 15% of the population who are in self-employment. I am not sure of the numbers for London, but I believe it is slightly higher in London for self-employment. I am not sure if other panel members have that level of detail.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): It is about 800,000, we think, and that is based on Office of National Statistics (ONS) statistics. There are 800,000 self-employed people in London, which is - you are absolutely right - slightly higher than the UK proportion overall. There are 4.8 million self-employed people in the UK.

Shaun Bailey AM: How many of that 800,000 will have any relationship with UC or will be using it?

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): No one knows that at the moment. That work has not been done and so, unfortunately, I am unable to give you a figure on that.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): Roughly, there are 5 million people who are self-employed in the country in the workforce and about 800,000 to 900,000 of those are claiming tax credits. We can expect, as we move UC on and start to manage the migration process, about 800,000 or 900,000 people will come on to UC and will be self-employed if there are no changes in their behaviour because of the way the minimum income floor works and is designed to work.

There is a real problem of in-work poverty in this country. Two things drive in-work poverty in the main. If you are in full-time employed work, it is very unlikely you will be in in-work poverty, but if you are in part-time employment, there is a good change you will be in in-work poverty. If you are in self-employment, a quarter of the in-work poverty numbers in this country are derived from being in self-employment.

UC tries to incentivise more work when you are in part-time work because we do not want people to be in in-work poverty. Similarly, with the minimum income floor, we are trying to incentivise people to a level of earnings from their self-employment that can support them or, as I said before, into other alternatives that will allow them to increase their incomes.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): We would support the Government's move to try to ensure that the benefit system is not propping up unsustainable businesses that have no realistic hope of becoming sustainable, but we feel that it is about finding a sweet spot, if you can, on the one hand, not support businesses that are never going to be sustainable but also, at the same time, offer support to businesses that may well become sustainable.

Under the current system we are concerned that we have not found that balancing point right at the moment. There is mounting evidence that UC is putting some self-employed people under severe financial hardship and it is encouraging them to close their business, which they do not want to do and they are hoping that they may be able to turn their business around.

There are a range of statistics out there that show that businesses become more profitable in about year three. In order to get a level of earnings above the minimum income floor, which is a little over £1,000 a month, typically, we would really want to be seeing businesses entering into their third year. With the way the minimum income floor works, there is a start-up period of 12 months when a new self-employed business does not have to worry about the minimum income floor because it does not come in for 12 months. We would like to see that extended to three years because there are figures from RSA [Commercial Insurance] that show that in the second year of trading the average self-employed business is earning £665 a month, well under the minimum income floor. The Mone Review [*Be the Boss: Boosting enterprise in more deprived communities* (2016)] established that only 29% of businesses were earning over £1,000 per month in their second year. There are pretty good statistics out there that show that self-employed businesses in their second year are going to struggle to meet that minimum income floor. That means that a lot of them are going to find it hard to keep their families going and pay their bills.

This is why we are worried about UC. We think that we should be giving a little bit more leeway to allow people to make their businesses profitable before we decide that we cannot keep this going anymore and that the Government does not want to keep paying to keep this business propped up.

Shaun Bailey AM: You say you want to see it extended to three years. Is there any idea what that would cost?

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): I do not have that figure, I am afraid, no.

Shaun Bailey AM: It would be very important for people deciding to support that or not to know what that would cost. If the work has been done and your argument is correct - or not and that needs to be decided, I would imagine - you are going to need to tell us what that would cost because we could pursue it.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): Yes, I take your point. At the moment, the way the tax credit system is working is that those businesses are receiving tax credits. The current benefit system is paying for that now. What we are talking about here is removing some payments from some businesses. There is obviously going to be a saving there for the Government, but we are questioning the cost of that saving to the self-employed businesses. It is going to force them out of businesses and either into unemployment or into an employed role that they would rather not take.

Shaun Bailey AM: I accept that, but if you could give us the cost, we would be able to understand what it is you ask for. Of course, the tension here is that it is very hard to predict which business will be profitable and which one we are just propping up for an extra two years. That is the tension. That is why the cost is important.

Faisel Rahman OBE (Managing Director, Fair Finance): Just to put it into context, I run a social enterprise in London that offers access to financial services for people outside the mainstream, which includes individuals as well as small businesses. The relevant point is that one of the key aspects of making a decision about whether you can lend to a small business is assessing whether they are generating sufficient income to justify the loan. A key aspect of our work is that we look very carefully at a small business, what it generates, how much it generates and over what time period.

We were launched in 2005 and have worked with individuals and small businesses and, of those small businesses, probably about 20% of them are self-employed. Across the gamut of our clients, we work with around 20,000 people a year, of which 1,000 are entrepreneurs. We make a couple of hundred loans a year to small businesses and 20% of those are self-employed.

In terms of trying to put into context how we assess that, we will not make a loan to start-up self-employed businesses because we have no sense about what its income profile is going to look like. In fact, we will not make a loan to any business that does not have at least two years of track record, especially for self-employed businesses, because so much of their income is very volatile. You are very right to point out, Andy [Chamberlain], the time it takes for many of these businesses to be established. It is only really in the second or third year that you get a true sense of what the true cashflow is going to look like. They are generally losing money or more likely going out of business within the first year. Therefore, we would not work with any start-ups and we would not work with any people in the first two years. We think it would be almost impossible to say, looking at those first two years of cashflow, whether that person could afford a loan or what their income is. That is effectively the way we stand and look at it.

One of the big reasons for that is partly around volatility. It has been touched on a bit already, but many small businesses and specifically self-employed businesses have a lot of business volatility: invoices paying late, one-off charges that they have to pay, work that is invested before they get a return and so they are often not seeing much coming back, and large transaction payments that come out at irregular times in the course of the year. Their income comes in at very irregular times as well. An invoice might be charged today but paid in 90 days if you are lucky but maybe 300 days if you are really unlucky.

Many of these businesses are dealing with huge amounts of volatility on the business side and many of these self-employed business commingle their finances with their personal finances, and so they then have all the volatility of their own personal finances: rental bills that are due every month, utility bills that could be monthly or six-monthly, other bills or transactions that you have to pay that are probably not aligned with income flows. This makes managing two sets of volatility extremely complicated and difficult for self-employed businesses.

That means that if we are going to work with this customer segment or this group of individuals, we need to introduce a much more defined level of personalisation to really understand what is going on, not just over a time period to understand what their income flows are but a personalisation to really figure out whether these volatile income flows are positive or negative. Are we looking at a month, three months or six months? Are we looking at a positive or a negative trend? We cannot do that without a sufficient time period.

What we have discovered is that many lenders in this market choose not to even associate with this customer segment because it is too difficult to do so. It is too risky to lend to this group. It is too risky to assess. I suppose I would turn back the point to you and say, if professional underwriters are saying it is too difficult to assess these customers for at least two years, it would be very hard to make a judgement about their income within a year. Even going forward, addressing and working with that customer segment requires a level of engagement that is very difficult and expensive to provide. This means that, for this group here, for me specifically, I see multiple levels of exclusion: exclusion from the personal finance market, exclusion from the business finance market and potentially exclusion from the public finance market when they are struggling to make ends meet.

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): I would like to add some comments to what has been said already.

We have recently run an analysis on the choices self-employed people make when they go over to UC. We have data on 500,000 from our Trust for London project and so it is quite easy for us to look at this data and follow the track over time and see the choices people make. The DWP is doing a huge bit of work into this to be published next year. We were looking at 43,000 self-employed people, but the cohort that we could track is only 800 and that is because it is a particular computer system that those London boroughs use. Out of those, we found that when they moved over to UC 74% went to unemployment, 23% went to employment and 1% remained self-employed. It might be that once we have a wider group -- I would not rely too much on the figures and the exact percentages, but there does certainly seem to be an indication that the path we are going to see most commonly is to unemployment rather than to employment and that retention of self-employment is likely to be the least selected path. As I say, these are initial figures. The DWP is doing an awful lot more work on this and we could do more work on it when we have more people moved over to UC. At the moment, we are just seeing a few move over.

On Kayley's comments on fluctuating income, a lot of our people who use our software, especially housing associations and local authorities, do a lot of budgeting work for people. We are always hearing about the problem of not knowing. Not being able to plan for your outgoings and not being able to plan for your rent and your utility bills is a real problem. That hits the self-employed more than others because of this volatility. I know that we are hearing that feedback over and over again.

One thing I would like to say is to bring council tax into this. It has not been mentioned. Local authorities have the ability to design their own council tax scheme. Policy in Practice probably does more modelling on these than any other company. We have probably done 150 models for local authorities in the last year. Local authorities are under huge financial pressure and are looking at ways to protect the most vulnerable and make savings, and so the majority of them are incorporating the minimum income floor into the council tax support scheme. The self-employed are not just losing benefit through UC; they are also losing benefit through council tax support.

To go even further than that, some of the local authorities are introducing the minimum income floor for those on legacy benefits as well. It will not just be as people move over to UC. We might actually see some self-employed people's household incomes going down even while they remain on current benefits.

Especially for next year we are seeing a lot of these being modelled for coming in in April 2019 and an awful lot being modelled for April 2020. As time goes on, we are going to see council tax support for the self-employed reducing as well. That gets very little publicity, but when you are on a low income, the amount of support you get for council tax does start becoming relevant even though it is much less than the overall household income.

We are hearing from a lot of housing associations that work very closely with tenants that a lot of self-employment is not about building up a big business idea; it is about having barriers to work. Although the minimum income floor does take into account barriers to work, it is set at the hours of the conditionality and so different people will have different minimum income floors. These barriers to work might be at a low level that are probably not really that relevant to the DWP. They are not enough to get a Carer's Allowance. The caring they are doing is not enough to get a Carer's Allowance or to have the hours they are supposed to work reduced because of that. It might be that they are getting children to and from school or that their children are over 13 [years old] and so they are expected to work fulltime, but that still might not be possible because of various aspects to do with the family. It might be to do with health.

We have a real problem here in that the work coach is supposed to be deciding on how many hours the person should be looking for work and working - and of course that is what the minimum income floor is based on - but work coaches have a really tricky job. They are supposed to be understanding the person's situation and be the coach at the same time and so they are the enforcer. A lot of people are very reluctant to start discussing too much about their lives with their work coaches. They are not really sure of that relationship. We have been to a lot of Jobcentres. Neil can talk about this way more than I can. The work coaches do an incredible job but they are in a really difficult position.

There are a lot of barriers to work. We are not talking about lots of entrepreneurs who necessarily want to build up incredible businesses. That is a cohort, but we have a lot of people for whom this is their only step into employment and other types of employment might start becoming quite tricky for them.

The only other point I would make is about the three years. We have been following our self-employed cohorts through longitudinal data analysis and we see very little rise in income. That might be because of the ones that after three years are moving out of our cohort. We are not seeing those. The successful businesses we are not seeing and other businesses are coming in. We are not seeing the increase if we follow people over two or three years. Over 18 months we saw an increase of 3% on average, whereas for the employed we saw an increase of about 7% over the same period. We are seeing flat earnings amongst the self-employed. Yes, I am just adding that in.

Jennette Arnold OBE AM: It is to you, Zoe. Thank you for that. The scales fell from my eyes whilst listening to you. What sort of range of jobs are you talking about? I was taken with the point that we often think of the self-employed as in amazing jobs on the way to making their first million, but I recently had a conversation with my window cleaner. He has been self-employed for X number of years and was saying he just cannot cope now and has given over his ladders to somebody else. What sort of jobs are prominent in what you are seeing?

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): We are seeing a huge range, but our information mostly comes from housing associations. We do an awful lot of work with housing associations and get an awful lot of feedback from housing associations. Housing associations tend to be a bit more proactive than local authorities because rental income is so important and they just do seem to be. They are actually having one-to-one interviews with most of their self-employed clients just to try to get them out of self-employment as soon as possible so that debts do not build up. Therefore, we do have a lot of feedback.

This might just represent the households because we do know there are more single parents amongst housing association clients, but there do seem to be a lot of women, particularly lone parents, who are trying to fit in various caring for not just their children but other relatives and other responsibilities and health issues. They might be running a craft business from home and selling over the internet, just trying to top up their income at the moment as best they can, but it will make no sense for them to carry on doing so. That is a different type of business to a business that could grow and is worth financing and moving forward. These are just sole traders trying to top up their income, really.

Jennette Arnold OBE AM: UC has not incentivised them in most instances, has it?

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): It might incentivise them to employment and then the household would be even better off. We just have to track more over time. The DWP is doing a lot of research into where people are going and so we will see next year when that is published.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): Quickly on that, I do have data if the Committee would like it on the kind of work that people in self-employment and tax credits are doing.

Susan Hall AM (Chairman): That would be very helpful.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): First of all, only about 5% employs anybody else. It is predominantly sole traders, as you would expect at these levels of income. As Zoe said, they tend not to increase their income and so, at the three-year point, 66% have not changed their income at all from when they started claiming. To Assembly Member Bailey's question, each year added on the minimum income floor are roughly 300 million there.

On the kind of work that people are doing, 10% are taxi drivers, 7% are in construction, 5% are in cleaning, 5% in hair and beauty, and 10% in other building and plumbing. It is very sole trader-like work.

The other thing I would say is that the people doing some small amounts of self-employment would probably fail something we call the 'gainful self-employment test'. It is possible to be self-employed under UC and the minimum income floor not apply because you are not deemed to be 'gainfully self-employed'. You might be doing a little bit of selling on the internet. That will not be treated as a business by us. You will have the same conditionality and responsibilities put on.

To the question of why we set the minimum income floor at one year as opposed to three, it was because of what that data is telling us. We have promised the Work and Pensions Select Committee that, when we have run this data and this longitudinal study that we are setting up and running right now, as Zoe [Charlesworth] mentioned, we will take a look and see what the outcomes are from that. However, right now, we think that a year is the appropriate point at which to set the minimum income floor based on that data.

Susan Hall AM (Chairman): Welcome, Ben. I know you missed most of that. Would you like to miss out on this round of questions or is there anything specific you wanted to add?

Ben Fell (Senior Analyst, Policy in Practice): Yes. I just want to apologise for getting the timing wrong, but Zoe has almost certainly covered everything that I could possibly cover on that.

Susan Hall AM (Chairman): The Government has just announced that established self-employed people moving to the benefit will be given a 12-month exemption period from the minimum income floor. Do you think that will make a difference, Neil?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): We have just announced it and so, obviously, yes. The reason why we have done that is - and this is probably a bit of Zoe's [Charlesworth] difficulty in trying to track cases - there are very few self-employed people on UC right now, probably around 10,000 the last time I had a look inside the system. That is out of 1.3 million people currently on UC and so it is a very small number, which is why we cannot do the tracking yet, as we explained to the Committee.

However, looking ahead, we know through managed migration that a lot of people on tax credits are going to come over. They would come previous to this policy and the minimum income floor would hit straight away. We thought there needs to be a period of adjustment for people to come to terms and to think about the life choices we are asking people after a year, new claims and new self-employed, to make and decide. That is why we brought that in and it will support us to move probably about 1 million cases over from tax credits into UC.

Andrew Dismore AM (Deputy Chair): Can I go back to your 300 million figure? It could be also a question for Andy [Chamberlain]. Presumably that is not a cost; that is a lost saving if it were to be extended for two years? If those people are already receiving other benefits before they are migrated, that is money that is being paid out now and so it is actually a lost saving rather than an additional cost.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): You can describe it both ways around but it has the same net financial effect, which is that we need to spend £300 million more.

Andrew Dismore AM (Deputy Chair): The next question is: is this one-year rule really a false economy? If people, as Zoe says, come off self-employment and go on to unemployment, presumably their claim on UC is going to be higher than it would have been had they been able to continue their business at whatever level.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): There are currently about £5 billion worth of public money being spent on self-employed people and supporting them in the tax credit system. After these changes, we estimate that that figure will be about £4 billion. It is a little under £4 billion but let us call it £4 billion for now because the economic numbers all moved around in the [Autumn] Budget and I have not crunched all the numbers again in light of that. That makes sense from the individual's point of view because, if we can incentivise them into employment, the incomes for those families will go up and they will be lifted out of in-work poverty. Therefore, there are financial benefits to the taxpayer coming through this policy, but that is not why we are doing it. We are doing it because we think, with the number of vacancies we have in the economy, many of the people who are currently sole trading could be employed and could get higher incomes for their families from that. As I said, the average income is about £20,000 from unemployment and only £10,800 from self-employment.

Andrew Dismore AM (Deputy Chair): That assumes that people are in a position to get into full-time employment or whatever. Just going back to what I was asking you about the numbers, from the figures Zoe has just given us, albeit from a relatively small sample, only 1% was able to stay in self-employment. I have forgotten the figure that went into unemployment.

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): It was 23% into employment and it was about 75% [into employment].

Andrew Dismore AM (Deputy Chair): Yes, three quarters of them end up on unemployment benefits in whatever form that happens to be. I can understand the theory behind what you are trying to do, but the question I put to Andy [Chamberlain] is like this. The sorts of people who go into sole trading or self-employment are people who need flexibility in their work patterns and that flexibility is not normally available unless they are in the gig economy, which again creates the same problems with variable earnings and so forth.

This is a question for Andy. Is it a realistic prospect for people whose self-employment at whatever level fails to go into employment? From Zoe's figures, it is apparently not.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): This is our concern, yes. That is what we are concerned about. If you look at some of the groups where there are disproportionately high numbers of self-employed people, there is a disproportionately high number of self-employed disabled people, for example. There are about 750,000 disabled self-employed and their earnings are 23% lower on average than the average overall self-employed earnings.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): If they are in a no-conditionality group, the minimum income floor will not apply to them.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): That is a fair point, sure. Not all of those people will be affected. Zoe mentioned working mothers. Sorry, I keep on using percentages. I hope I am not overdoing it, but it is helpful for me to try to explain the picture. Of self-employed women, 51% earn less than £1,000 per month, and so they would be affected by the minimum income floor because they would be expected to be earning over that. These are the groups and we can see. It is quite easy to imagine how it would not be straightforward necessarily for some of these groups to go into employment where they would have to meet certain criteria imposed by an employer which they would feel unable or unwilling or it would make life very difficult for them to do given their other responsibilities. This is one of the concerns that we have with the imposition of the new income floor.

Assembly Member Hall, just to go back to your point about the extension of the 12-month start-up period to existing businesses, we do think that that is a helpful financial cushion for businesses that are transitioning into the new UC system --

Andrew Dismore AM (Deputy Chair): However, if the system did not change, you would not have to have that in the first place.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): No, that is true, but it does not address the underlying problems of the minimum income floor, which is around the expectation of earnings and, as others have mentioned, the volatility of earnings is a big problem. If you have one big expense in a month, then you are really hit by that.

Also, just one other point on volatility: there is a concern over the administration burden because you basically have to do accounting on a monthly period and work out what is coming in and going out, whereas you would normally do that over a longer period. That just means more time staring at the books rather than going out and trying to make money for the business.

Andrew Dismore AM (Deputy Chair): Just a question for Kayley, actually. A straightforward question with a straightforward answer this will be. Is it worked on invoices delivered or bills actually paid in terms of the income for the DWP purposes? Do you look at real income, as in pounds coming into the bank account, or when the invoice is delivered does it count?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): It is the actual money you receive. To Andy's point, 97% of people are reporting their self-employed earnings to us monthly online now. It is only 10,000 people, as I said before, but 97% are managing to do that and the rest phone it in.

Andrew Dismore AM (Deputy Chair): Going back to my original question that set all of this off, we have details here of the sectors that low-paid self-employed work in in London and 41% are in construction, electrical, plumbing, decorating and so on, 22% are in administrative and support services such as cleaning, 17% are drivers, 27% are in what is described as professional, scientific and technical, which is design, photography and translation, and 10% are in wholesale and retail, which are all very flexible sorts of jobs for self-employed people. Is it pie in the sky to think that those people are going to be able to hold down full-time or even part-time regular jobs, bearing in mind the sorts of conditions they can set for themselves?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): Assembly Member Dismore, the figures you have there are for the whole of the self-employed population in London, not the self-employed population on tax credits.

Andrew Dismore AM (Deputy Chair): No, these are the figures for low-paid self-employment. In the UK the figures are slightly different, but 73% of London's low-paid self-employed are in those categories. It is not across the board; that is the low paid.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): I apologise.

Andrew Dismore AM (Deputy Chair): It may be there is a similar number in better paid, but that is the low paid figure.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): When you ask self-employed people, they definitely want to be self-employed compared to employed. Only about a third of self-employed people on tax credits want to be employed. They are making a life choice to work in that way. You are quite right: for some people that will suit their lifestyle and maybe their caring responsibilities. As Andy was saying in his answer to the question, lone parents will be required to work to a minimum income floor congruent with the conditionality requirements on them. Not all lone parents have to be seeking full-time work, for example. The minimum income floor will be set at that level.

We try in the system to respond to some of that, but I will keep bringing the Committee back to the hard fact here that a quarter of people in in-work poverty are self-employed. We are trying to do something about that in an economy where there are really good opportunities for employed earnings which will lift people out of that in-work poverty. That is something the system does not do now that UC will do.

Andrew Dismore AM (Deputy Chair): That assumes that the people we are talking about are in a position to take and hold down those jobs.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): I would be very interested to see Zoe's [Charlesworth] data to understand what the destinations ultimately were because we know that the Jobcentre Plus (JCP) system is very effective at getting people jobs. The Organisation for Economic Co-operation and Development considered it to be one of the most effective - if not the most effective - public employment service system anywhere in the world. It may be that the person's transition is from self-employment into unemployment. You then have to ask how quickly we get them into employment and then what the levels of earnings are there compared to what they were earning in the self-employed work.

Andrew Dismore AM (Deputy Chair): I accept all of that and I know that JCP does a good job. I was on the Work and Pensions Committee myself many years ago.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): I remember it very well.

Andrew Dismore AM (Deputy Chair): That was one of the things we looked very closely at and, compared to the old employment exchanges, it is a complete transformation. There is no argument about that, but we still come back to the subjectivity of the individuals we are concerned about. My argument that I put to you is, in effect, that cutting off at one year is a false economy. If three quarters of those people go into unemployment and end up claiming more because of the floor, you are not going to save anything. That is basically the premise. You are saying they can get a job, but my argument - and I think Andy [Chamberlain] was backing me up - is that not all but a significant proportion of these people are not really in a position to take employed work because it does not have the flexibility they need to run their lives and generate as much money as they possibly can.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): Should people formerly in self-employment go into unemployment it will cost more money, but we know that the system we are running is very effective at getting people into work. In fact, UC is even better than that old Jobseeker's Allowance (JSA) system at getting people into work. Our expectation is that the burden on taxpayers will fall because of this policy; it will not rise. We will not know until we have done some of the evaluation and tracking there. Clearly, if we find something has not happened, then we will look at making some changes, which we have done regularly on UC in the light of evidence that has been presented to us. However, right now, the evidence is very strong that a year for a minimum income floor is the right thing to do and that is what we said back to the Select Committee. Let us do the tracking, let us do the research and let us see what happens.

Andrew Dismore AM (Deputy Chair): The people here are all saying that a year is too short. Kayley [Hignell] said it. Andy [Chamberlain] said it. Faisel said it. Zoe did not say it because she was not asked, but I do not think she would agree with that. You have this range of experts who are saying that it is not going to work. The problem is that at the moment you only have a very small sample. How long is it going to take before the increasing number of people going to the foodbanks again forces you to rethink?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): We went and looked at the data and the data shows that after a year and after three years there is very little difference in terms of the likelihood of that sole trading or business having an increased income. There is no difference between one year and three years. We are forcing people, in one sense, to confront that at a one-year point and a three-year point. My colleagues are arguing for a three-year point and I have given you the cost within the system of what each year's extension would generate for taxpayers.

Andrew Dismore AM (Deputy Chair): Have you factored into that assessment the number people who will, as a result, be claiming higher rates of benefit - whichever it happens to be - because they do not have a job? There are two sides of the balance sheet; on the one hand you have how much it is going to cost in straight lost savings in having one year instead of three years, and on the other hand you have to factor in how much extra you are going to be paying out in Unemployment Benefits.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): We are at record low levels of unemployment. There are 800,000 unfilled vacancies in the economy. My contention is that as the labour market clears here and these individuals clear through the labour market they will make it into employment. We will know when we have run the analysis on this. The Government does not think it is the right time just because people say three years is the right time. We say let us have a look at the evidence. We based our decision originally on a year on evidence. UC is a new system. We will see how it is performing. If it shows that what we think is not true then, of course, we would look at making some adjustments.

Andrew Dismore AM (Deputy Chair): At the moment it is lick your finger and stick in the air and see what happens.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): No, look at the data. The data shows that if businesses have not increased their income after one year it is very likely they will not after three. That is the factual basis upon which we made this decision.

Shaun Bailey AM: Zoe, I want to focus on your figures. Your figures could be meaningful but we have to put them in context and I wonder if you could look at that for me. Because you deal with housing associations you tend to be dealing with a very particular and vulnerable end of the employment market.

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): If you are talking about the figures I gave you about three quarters and a quarter --

That comes from low-income Londoners. That is from the Housing Benefit data from all London boroughs, all the people in London who are on benefits. We can look at the household income of all those Londoners, we know which of them are self-employed. The reason that was reduced to £769 for that analysis was because as they move over to UC local authorities do not have access to as much data. There is only one computer system at the moment that certain local authorities use for council tax support that provides the level of data we need to be able to do that longitudinal tracking. We are trying to work out a way of doing it with the others but at the moment that is all we have. That is why I am saying not to focus too much on the figures, it is more the pattern at this stage. This is all new and is something we are creating at the moment. I am absolutely certain those patterns are right; the majority are going into unemployment, a small percentage going into employment and very, very few going into self-employment.

However, this is only tracked over a short period of time at the moment. I go back to what Neil said: they might be going from self-employment onto UC, be absolutely aware they cannot survive on that and so change immediately to giving up employment all together but that might be a temporary step to looking for employment. We are needing longer tracking and we are needing a longer sample, at the moment that is all we have.

Shaun Bailey AM: I just asked because an awful lot of assumptions were made about the situation we are in. It sounds as if we need to go through the process and look at the figures properly. To my mind it sounds like if you change the income floor you may be encouraging people to stay in a lower earning situation longer than they have to, when they could have exited earlier and be making much more. That is the tension there. Until somebody has the figures it seems that one year may be the right time because the current set of figures would suggest those extra two years are basically people's incomes going backwards.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): The other thing I would like to think about for a second is the context of the labour market as a whole. We have seen the numbers of self-employment going up staggeringly fast. A lot has been said about that; whether it is gainful self-employment, whether false self-employment and in some way bogus and so on. What we have found is that in the main it is people actively choosing to go self-employed. As Neil has said: if you are self-employed, are you happy being self-employed or would you like to go back to employment? By and large they say, "Yes, I am happy self-employed and, no, I would not like to be an employee". What is causing this? Technology must be playing a role in it. There is a cultural shift too in the way we all work now. People used to stay in a job forever, now they move jobs all the time even if they are an employee. There is a lot of transience in the way people work and that has spilled over more and more into self-employment. People want to be self-employed. We are concerned that this system is so rigid, with very little flexibility, it is forcing people out of what could become a viable work pattern for them.

I do take the point that if you look at some statistics perhaps you are seeing that incomes are low and over a period of time they are not increasing as fast as you would like them to be. However, what we have been appealing to the Government to do is to cut people a bit more slack, let us see if they can turn their self-employed business into something viable. Give them three years or so where you offer that bit of extra support, bearing in mind you have been supporting them up until the introduction of UC. We are not asking for more support than they have received previously. We are just asking for that level of support to be sustained up until a point where it does become clear this is unviable. We are a pro-business movement. Sometimes I am going around lobbying for lower taxation too so I am not completely saying we should go on funding unsustainable businesses forever, I do not think we should. It is a balance and I am worried at the moment we do not have the balance quite right. That is where IPSE stands on this issue.

Shaun Bailey AM: I see your point. However, it seems to me the current set of figures would suggest that is two years of people's incomes going backwards and that is a worry, particularly at the low end. If you are in gainful self-employment you are doing well. If you are at the low end I worry your passion to make your business work and the flexibility it offers you is punishing your income, which is the tension we need to figure out.

Andrew Dismore AM (Deputy Chair): In fact, it is not going backwards, it is static according to Neil.

Shaun Bailey AM: You said there is no increase but there is a cost increase so relative income --

Andrew Dismore AM (Deputy Chair): To summarise, the question then is whether it is better to have people earning, albeit earning less than the threshold and therefore not claiming a full amount of Unemployed, or if it is better not to. I have figures here. Just because you are in work does not mean to say you are not in poverty. There are 2.8 million people living in poverty in families where all the adults work fulltime. Families with two parents working fulltime at the National Minimum Wage are still 11% short of the income they need to raise a child. The sort of people who are in this sort of business and earning not a lot, if they do manage to work are probably going to be in the in-work poverty box instead of the self-employed poverty box. I do not think it really takes us a great deal further one way or the other.

I will come back to Andy and the schedule of things we want to ask about. Is the effect of all this to discourage entrepreneurship?

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): I believe it is, yes. You do have to a bit careful about what really is entrepreneurship. As Zoe has said, the majority of these people are probably not going to go off and be the next [Sir] Richard Branson [entrepreneur].

Andrew Dismore AM (Deputy Chair): If we take a window cleaner, do you call a window cleaner an entrepreneur or somebody who is trying to make it --

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): -- They often will say about themselves they are not an entrepreneur but they have to act entrepreneurially or they have to display certain entrepreneurial characteristics. No one is looking after them, they are looking after themselves. They are keeping their business going on their own and I believe that is entrepreneurship. However, they are not growing the next big empire.

The Federation of Small Businesses has said this does discourage entrepreneurship. IPSE believes we should be looking at policies that encourage people to strike out on their own, albeit with the caveat that we do not want to encourage them into sustained periods of poverty. That is what Neil is saying this policy is trying to address and we completely recognise that as well. As I say, it is a balancing act and at the moment we are worried the balance is not quite right.

Kayley Hignell (Head of Policy, Citizens Advice): Two things strike me from this conversation. The first is that we need a proper test. I agree, we need to see this data in terms of how long people need. In its current form as a policy it is not a proper test because we do not know what happens at two or three years in UC. There are fundamental differences between tax credits and UC beyond the minimum income floor; there is much more regular contact with the individual, there is work coach support, much more regular reporting of income and much more tracking of that income. The problem with the policy of a minimum income floor is that it is not a test that is being evaluated, it is the policy that is in place that will affect all claimants. Until we get that data we do not know whether it is the right policy or not. It is continuing to be rolled out and will continue to affect people who move from tax credits onto UC.

If we wanted to test the effectiveness of the policy, you would have a control group that was not affected by a minimum income floor. You would look at what the interaction with the Jobcentre leads to of itself, without the threat necessarily of the minimum income floor. We are all for testing, data and evidence but it has to be in a proper evaluated way. It is an assumed policy at the moment that is affecting people and we are going to check at a certain point whether it is working.

The other thing is that we are having a discussion here about viable businesses. People who have viable businesses who, by all accounts, hit the minimum income floor during the year are affected by this policy and will receive less financial support because of the way their income comes in. From our point of view at Citizens Advice that balance is not right. It does not seem right to us the policy has a trade-off on the other side of it; to try to tackle businesses so people are not left in a situation where they have low incomes at the same time as negatively affecting businesses who, as I say, have a sufficient level of income but have it coming in through the year in different ways.

Andrew Dismore AM (Deputy Chair): I want to come onto this point about the monthly assessment and its impact. I forgot the question I was going to put to you, I will have to try to remember what it was. If we look at the monthly assessment - again I think this is for Kayley and Andy - how can small businesses address the ebbs and flows that push them into debt, into winding up and going unemployed?

Kayley Hignell (Head of Policy, Citizens Advice): It is not as if for your energy bills you can say, "Right, I am going to pay 20% less this month" or for your rent you will pay less that month. In the calculation of income for the minimum income floor if you have a bad couple of months you will receive less benefit support and over the year you will receive less benefit support compared to an employed counterpart. Our calculations are that somebody who has a fluctuation of say £160 per month, a single parent earning just short of £10,000 per year, will be worse off by about £500 over the year. It is not like their bills stop during that time or that for their finances they can say, "Right, I will just pay less towards this". If they were employed they definitely would not see that drop.

Andrew Dismore AM (Deputy Chair): I think what you are saying at the moment - going back to my thing of licking your finger - is that this policy is not evidence based.

Kayley Hignell (Head of Policy, Citizens Advice): We, and Neil, are referring to datasets that are relating to tax credits. The problem is that UC is different to tax credits. Therefore, we need to see what happens in the UC world, evaluating it both in terms of the success of supporting low-income self-employed people - whether they have fluctuations in earnings or not - and then the success of progressing people's earnings and increasing their earnings. Those two things have to be done at the same time for it to be successful.

Andrew Dismore AM (Deputy Chair): The problem with UC is that a lot of people suffer from their incomes going down, end up going to foodbanks and all the rest of it. The Government catches up and tweaks the system to deal with it but there is a lot of evidence in between to produce the evidence that that particular aspect of UC is not working. The risk here, when this is fully rolled out, is we are going to have a lot of people who are presently self-employed going bust, claiming Unemployment Benefit or ending up at foodbanks until the Government catches up and then Neil decides, "We have to tweak it a bit".

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): Your point about hardship goes back to Susan's [Hall] question about 12 months being extended to everybody and whether it is going to make a difference. It is going to make a difference mostly because of the support that can be given during that time. It is not reactive support - not people going to local authorities, going to JCP or the Citizens Advice Bureau - but proactive support that some local authorities and some housing associations are doing now.

That year gives them a chance to contact those people who can show them how much they will get now, what is going to happen when the 12 months runs out and who can model for them what happens if they move into employment. They can sit down with them in their homes and discuss the different options they have. The figures I gave you earlier are people who perhaps did not have this option. There was a change of circumstances, they went over to UC and immediately were hit by the minimum income floor. What that year does is it gives time for support organisations to contact those people and work with those people. If people decide to stay in self-employment and they have a feasible business, it gives them time to plan for having less income. I do not know if you can plan for having that much less income, but some sort of planning. It does allow people a chance to contact people and set out options with them and that is why it is important.

Andrew Dismore AM (Deputy Chair): That is a very positive way of approaching it. It is probably the most positive thing we have heard this morning. You have this 12-month Sword of Damocles hanging over your head about what happens at the end of 12 months. The point I was really making - and I do not know if Neil wants to comment - is this, that your rollout so far has not been without problems. I think that is universally accepted. The difficulty is that the rollout has meant a lot of people have undergone a lot of hardship before the system is tweaked or more money is put in - we saw the Chancellor put more money in or is about to put more money in in the Budget - to correct things that have gone wrong. My concern is that we are going to have a lot of people, albeit with all the encouragement you have given, facing the 12-month cut-off and undergoing lots of hardship, which could be avoided if we thought it through or piloted it, as I think Kayley [Hignell] was suggesting, to see how it works for the self-employed. As you say, your sample is still pretty small. I think Neil said there are only 12,000 people nationally on it.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): 10,000, yes.

Andrew Dismore AM (Deputy Chair): At the moment we are working with very, very small samples and it really has not been properly piloted, I think is the point I am making.

Ben Fell (Senior Analyst, Policy in Practice): Sorry, do you mind if I follow up on something that Zoe [Charlesworth] said? This point about proactivity is critical in this because I am hearing a lot of 'ifs' in this:

if people have barriers to work, if they are disabled but slightly below the criteria for getting the Personal Independence Payment (PIP) or other forms of support or to receive unconditionality. We do not, from everything we have heard here, know concretely very much about the specific barriers that are affecting this quite large percentage of self-employed people who are not increasing their earnings or who are decreasing their earnings. This is something we can deal with proactively because we can identify these self-employed households and we can identify households that are not improving their incomes under legacy benefits. If we follow up with those households and take a more focused data-collection initiative, then we can start to tease it apart. Is it that these are people with intersectional barriers? Is it purely that they have childcare responsibilities that they cannot overcome?

This year of support that is going to come in in UC can be more effectively targeted if it turns out that the problem is the criteria for disability or illness are too high. Then you can look at ways to support that specifically, but we need more information about who these people are. There has been a lot of hypothesising about why they are not improving, and that is what we need to know.

Andrew Dismore AM (Deputy Chair): I think it is fair to say that there are a lot of assumptions going on. I do not think there is anything new about this. When I was on the Work and Pensions Select Committee for eight years under the previous Government there were a lot of policies put forward without properly piloting, and I think we have seen the same continue - sorry to have a go at the DWP - ever since. The real issue is that I just do not think this has been properly piloted sufficiently to get the data and evidence-based decision-making, rather than political choice decision-making.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): The only thing I would say back to you, Assembly Member Dismore, is what I have said three times now. We use the evidence from the tax credit data to inform the decision about how long the grace period, this 12 months, should be. Because there is no appreciable difference in the tax credit data between the 12-month position and the three-year position, for the Government, it was exactly as Assembly Member Bailey suggested: "Let's intervene early here. Let's intervene at 12 months".

Now, some of my colleagues think that period should be longer. We have said to the Work and Pensions Select Committee we will produce longitudinal data that will look at this, and if the evidence suggests something should change, then we will look at making changes. Right now, it is wrong to assume that this is just a finger in the air, as you suggested. If anything, I put it back gently to my colleagues here whether it is their fingers in the air rather than mine on this one, because we have used the tax credit data.

Now, Kayley is absolutely right, tax credits are a different system, but to suggest this is not evidence-based would be wrong.

Andrew Dismore AM (Deputy Chair): It is apples and pears, isn't it? Zoe has given her very positive way forward in terms of looking at the difference between tax credits and UC, so it has not been tested on the UC basis. I accept you are making a decision based on historical evidence from tax credits. That is fair enough, but the whole thing about UC is, on the basis of tax credits, it does not work. Therefore, we are changing it to UC. I do not think it is an answerable question, really. My argument is it has not been piloted as a UC change from before because the numbers are too small.

Susan Hall AM (Chairman): I will just make one quick comment, then we must move on. I have run a small business myself for 40 years. We do our own businesses for various different reasons but we understand that it is the flexibility that is beneficial and the ability to work lots of extra hours and earn extra money. One of the things that we have to understand when we start earning money is that it will fluctuate. I would have thought that in a year, you should know then that you have fluctuations and that you have to put other measures in place in order to build up a business, and that is when Faisel [Rahman OBE] will start lending you money, etc, and it is only if you can increase that.

Andrew Dismore AM (Deputy Chair): A question for Faisel, because you have been sitting there very quietly listening to our backwards and forwards. Presumably you have seen cases where self-employed have got into debt because of income volatility. What can you do to explain how Fair Finance's business model can support people in those circumstances? You said before you will not lend to less than two years, and why do you choose two years, rather than one year or three years? That is a sub-question.

Faisel Rahman OBE (Managing Director, Fair Finance): Fair Finance was launched in 2005. We spent a lot of time working with small businesses. We initially launched the organisation working with start-up businesses as well as individuals for personal finance use. What we found within the first couple of years of doing that was that the default rate and failure rate for small businesses and start-ups was extremely high, close to 60% or 70%, and I think that is borne out by lots of policy papers that have come out over time.

What we wanted to do was not to be in a position of over-indebting individuals who were just starting an idea or a business, because the most successful way to grow a business is with equity rather than debt. What you really want to use debt for is when you have some stability of cash flows and you have some ability to see invoices or financing coming in and you want to manage the cash flow. Our decision was effectively based on that. It was to say, "At what point would it be responsible for us to lend, and at what point will you have enough data to know what to ask for?" Up until that point, all you are really doing is you are working it through. If most of them fell within the first year, it felt sensible to wait until that business has stabilised before the second year. That is why two years was the focus.

Also, the Government has a programme called the Start Up Loans Fund, which works with businesses that have less than two years of track record. That is a very soft loan. It is very advantageous. It is almost like equity for many businesses, and in a way that is a much better product than taking it away from us or from anyone else, so we wanted to take ourselves out of that space.

In terms of how we help businesses manage their finances, we have three arms in the organisation: a personal finance arm, a business lending arm and a money advisory service. I have been talking to a number of the team around what exactly happens around default and failure. Mostly, as anyone who has worked in the business knows, it is generally about cash flow rather than the business itself. That is the reason why you fall into financial distress. It is often about big cash flow items that are often the most financially distressing. Interestingly for us, the two biggest ones that have come up are Her Majesty's Revenue and Customs (HMRC) payments, which are often very large and annual, and then often down-payments, either on your rent or in arrears on your rent. Those are the two biggest areas. Interestingly, if you were to search online as to accessing finance at short term, you will find that there will be a plethora of payday lending firms that will lend to you just before HMRC deadline dates. You can see that the private sector has adjusted to reflecting that.

What we try to do with many of those customers is try to work with them, firstly looking through the company and seeing, "Would they have been able to pay this if they had managed their finances effectively? Therefore, are we financing a business that just cannot finance itself, or are we financing a business that could work?" We normally work around trying to help them build their financial management skills, give them some coaching or support, generally very light-touch. It is very expensive and time-consuming to do that kind of work. That does not exist very much, specifically designed for self-employed businesses, at the moment.

What I will come back to is the point that I said earlier. These businesses are complex, not because necessarily understanding the business is complex, but because the financial management that these people are managing is very complex, personal and commercial. Until we can get deep into understanding what is going on, we are not able to design a solution. Our response is: look very carefully at how the business works, offer a degree of personalisation that currently does not exist in that market, and try to look through whether we can build up a way of managing your finances so that you do not get into the same problem again when we deliver our finances to you.

Shaun Bailey AM: I will direct my initial comments to Zoe and Ben. What work has Policy in Practice been doing to help individuals transition to UC?

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): We do not work directly with individuals. We work with local authorities and housing associations, but mostly with local authorities. We use the Housing Benefit data and council tax support data and their rent arrears data and council tax arrears data. We try to gather as much data from a local authority as we can.

Once we have that data, there are a couple of ways that local authorities can use it. One of the big ones - and eight London authorities have gone down this path - is that that can all go into a dashboard, and it means that they can then identify patterns around low income. They can identify need and low income and where to target, and then they can track interventions.

For example, they could use that tool to find all the self-employed people in their boroughs, and then they could put them in order of how they are going to be hit by the minimum income floor, and they could arrange visiting officers to go and see them, or they could then help support all of those using another tool they use from us, which is a calculator. The calculator is not just a calculator. What it does is, once they go and see that self-employed person, they can say, "This is what you are getting now. This is what you will get under UC". It allows modelling, so it says, "If you took a job, if you gave up work, if you did not work at all". It allows them to see different scenarios. There are eight local authorities that are using that.

Housing associations use the same. They obviously cannot use a dashboard because they do not have the right to that data, but they use the calculator. A lot of housing associations, as a reaction to UC, are trying to get a financial overview of all their tenants. Every single tenant they sign up, they are now trying to capture household financial data just so that they can immediately intervene as a person moves over to UC.

The most proactive work, I have to say, we are seeing is from housing associations, which try to intervene immediately when they know someone goes on UC. Immediately, they get the UC notice, they try to do a visit to see what the problems are going to be, see what the budgeting problems are going to be, to see if there are things like self-employment. They just try to give that support right at the very beginning, because otherwise rent is not coming in. The whole housing association business is at risk. Yes, they do extreme amounts of proactive work, and I know they have done a lot about self-employed, which is why I was saying about that year being really good because they now have the time to do it. If you have five weeks, you have already started getting into a nasty cycle of debt. If they have a year to contact those people and work with them, you will end up with much more positive outcomes.

The local authorities are a bit stuck because they do not have any money, so they are doing an awful lot of reactive work. They are using our tools when people come to see them, and they are using them proactively to inform policies around discretionary spend, like the discretionary housing payments will, for assistance. They are using it to define who they want to help and things like that. The most proactive work we are seeing is around prevention of homelessness. To them it is the most urgent. These tools are being used, and they could be used for targeting, supporting, tracking and interventions for every self-employed household. They are there; they just need to press a button. They could be doing that.

If they have resource to do proactive work, it tends to be focused on using the same tools towards prevention of homelessness. They are limited, the amount of staff they have to be able to do proactive work, because the staff who do the reactive work - their welfare teams, their customer support teams - are seeing quite a lot of increase in work as people move over to UC anyway. In fact, they are cutting back in their proactive work rather than upping it. That is the pattern of use we are seeing at the moment.

Ben Fell (Senior Analyst, Policy in Practice): I would just follow up to say that although we do not work directly with individual benefit claimants, the benefits calculator that goes alongside the dashboard is available online and it is directed through Gov.uk. We do have a fairly regular stream of independent users and that has most of the same functionality and allows individuals who may not already be on UC to put in all their financial circumstances and see whether they are going to better off or worse off, and do that same pre-emptive modelling to see, "OK, how many hours do I need to increase my work by in order to break even under UC?" That kind of thing.

Just again, I would emphasise Zoe's point that through the dashboard and through the information that we collect there is a huge amount of potential for proactive, pre-emptive intervention, particularly with this question of self-employment. We can literally on Google Street View say, "OK, that household, they are self-employed and they are going to be this much worse off under UC". We have all the information that is captured in the DWP data on household circumstances, including number of child and disability status as determined by DWP. We have a certain amount of information about risk factors associated with that transition, I think. My point previously was that maybe we need a little bit more information on those specific households. Because it is a relatively small sample size I think that would be definitely achievable if there was someone wanting to do that research. This would be a great starting point for identifying those people.

Shaun Bailey AM: Neil, we have talked about this benefits calculator. What work is being done to make this easy to find? Do you have a similar thing? Could you be using their system?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): The Government uses Policy in Practice's and a couple of other benefit calculators. They are accessible through Gov.uk and we work with Policy in Practice to make sure it could be.

Shaun Bailey AM: We all love Gov.uk, whatever it is called, but is there any way of getting it out there more widely? Knowing that individuals can do pre-emptive work themselves, more individuals asking might mean more councils may become involved. It just seems like something that we should be pushing forward, not just letting it rest on the Government website.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): I agree with Policy in Practice that there is more that Jobcentres can do in partnership with their local authorities. I have colleagues with housing associations and I think housing associations were, prior to 2010, a bit of a sleeping giant in the field of Works Better work. They are now really energised on that. They have really picked up the baton there and run with this. That is a very positive development out of the reforms that we are doing. We can use our own data in the same way that Policy in Practice use their data, to inform what we are doing locally. We are particularly looking at this about managed migration, where we are moving around 2 million households on to UC from -- probably it will not start in volume now until about 2020, between 2020 and 2023. We are trying to get that process right now.

Shaun Bailey AM: Does this managed migration and your rollout effectively act as a pilot? Can you adjust things as you go along, as you face new challenges? As Policy in Practice say, can you adhere to what we are seeing?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): To some extent and to some extent not. Rollout is nearly finished. We are about three weeks from the end of rollout and UC being in every Jobcentre across Great Britain, and in fact in Northern Ireland it finishes a week earlier. We will be right across the country then. That is for New Claims youth loans and change of circumstances. Then, as I say, in July 2019 we are going to start testing small pilots. We are back to piloting and testing, which is what we did with UC for the first few years. Then once we are convinced we have a viable system for taking on large numbers of people, which will be a judgment made probably around the autumn of 2020, we will be ready to go to volume on that.

All the time now though, UC is growing. It is growing quite fast. In October [2018] there were 140,000 new claims to UC and there are already 1 million households, 1.3 million people overall on UC. That will grow now steadily. We will be at 2 million by around April and towards the end of 2019 into 2020 we will be at 3 million. The case load really grows quite quickly now, so our ability to tweak things is still there but if you have to make a major policy change, something like the run-ons we announced in the Budget, they take a little time to now code and put in the system because I need to be sure that by coding the system I do not interrupt the payments of everybody else when I put that fix in. I asked Ministers in Parliament for a little bit of time to get changes in now. When we were at the piloting stage it was must quicker to get changes in and flex the system.

Shaun Bailey AM: Just focusing on Kayley for a second, what work has Citizens Advice been doing to support UC claimants?

Kayley Hignell (Head of Policy, Citizens Advice): Absolutely. Since UC has been rolled out we have helped over 150,000 people now with UC enquiries. The bulk of those enquiries relate to the initial claim at this point in rollout and you would expect over time for that to change. At the moment it is things like people unsure about what they should claim and when they should put a claim in, because it does make a difference for UC.

There is the actual claims process. We have documented this and there are at least ten stages to the claims process and several deadlines within that which, if you miss, your claim stops and you have to start again. We see fairly high rates of people having to make repeat claims. There are lots of problems around people getting sufficient evidence to complete their claim so that they get paid on time, and challenges around the claimant commitment, what should be in it and if it is appropriate for them.

Beyond that are enquiries related to things like delays or errors. There are problems around people being paid late. We know from DWP's data that still one in six people are paid late. They do not receive their full payment on time, missing crucial payments like rent or childcare, for example. We also see particular issues at the moment around people who have a disability or health problem. If they have moved from the old system, the legacy system, into UC, it is not particularly smooth for them at this point in time.

In addition, beyond the initial claim period we help people with lots of issues around deductions and debt repayments. We were glad to see in the Budget a reduction in the overall level that can be taken from somebody's UC claim but still we see people really struggling with having 30% of their standard allowance. The core bit of their UC will potentially reduce once this change comes in.

There are lots of different issues. We help people by making sure they have the correct information. We give tailored support so that if an individual just needs information and reassurance, we can do that. If they need help to go through those ten stages or to correct errors and delays or problems with their benefit, we help them to take action as well, somebody who has higher support needs. As I say, we do this in a way that empowers people. We always show them the information; we do not just take action for them. We always set out the options that are available for them to take and ask them to make a proactive decision about what they would like to do.

For us, UC is not a straight replacing of the enquiries that we used to have around, say, JSA or tax credits. We do see a difference and a change in the nature of enquiry. The difference largely is around the initial claim being such a big area of advice, rather than those errors or problems with it, but also in terms of volumes and in terms of the amount of people coming to us. It is much harder to track now that we are at this stage of rollout but in earlier stages of rollout we were seeing roughly 10% of all new UC claimants, the equivalent of that, I stress. Given that you are talking 7 million households roughly over the rollout of UC and that we have a relatively fixed supply, that was a challenge for us. We could see down the line that there was going to be a massive problem in terms of being able to help those people.

We really welcome the addition of the Universal Support funding that we have recently received. We have been running Universal Support from 2019/20, so April next year. It is a new service, not just replacing assistance with digital and personal budgeting support. It is more end-to-end, independent, impartial initial claims support through all of those ten stages. What we were seeing with Universal Support is that it is different in each area as it stands, and what we were seeing was that there were gaps in that support. You might get help to make your initial online claim and then you might get help to, say, open a bank account, but in between the bits where you have to submit evidence, the bits where you have to complete actions on your journal or your online account, people were having challenges getting caught at that stage. Ours is end-to-end. It is not one size fits all. If you need that reassurance, we can do that. If it is that hand held, we do that as well. We also ensure that people know about things like advance payments, alternative payment arrangements and the like.

That is in the design of the current offer. We will be running that from April [2019]. We are in the process of piloting that service at the moment in a handful of areas, mainly to check things like demand, how many people need that level of support and what level of support do they need, but also to check it is the right type of support. We will be taking a similar test and learn approach to what UC has in that if we do see issues we can then change the way the design works and work with our local network to ensure that happens.

At the moment, we are helping people who are coming through our doors with that initial claim and beyond. We will continue to provide that help as we do at Citizens Advice but now we have the addition, from April, of having a very specific support service for the initial claim part of our support.

Shaun Bailey AM: Just one small question before we move on, Chair. What specific issues are you seeing around the budget calculator software and people having to apply online? Again, Zoe [Charlesworth], you may want to come in as well. Are you seeing any specific issues around having to do it online?

Kayley Hignell (Head of Policy, Citizens Advice): Yes. A lot of our clients do struggle with online. Online skills, access and trust are not a given, particularly for benefit claimants. It is different for every group. We see a lot of people who are just struggling with the very fact that it is online in the first instance.

The actual claims process in terms of submitting information and the like, it is really variable as to how people are faring with that, but what I want to stress is that it is not just a case of going online and typing in your information and pressing "send", which you could potentially do with an individual. You have to set up an online account, you have to do things within timelines, with deadlines that will close your claim. You then have to keep interacting with that system on a regular basis and certainly throughout the claims process as well.

In terms of benefit calculators, there are several that exist and we support our clients to use them and use them with our clients to do it. It is very hard with UC to give people a sure message on what their income is going to be at the end of the month and this is one of the fundamental challenges. If somebody comes in and we help them with their claims process, saying to them, "Right, you will definitely get X at the end of the month" is nearly impossible. You can give people a really good outline of what it might be but you cannot give them the definite amount because people's incomes change over that month and their UC will change, potentially, during it. There is an additional challenge that you did not see in the same way in the legacy system of that surety of income because it is more reflective of people's income during the month whereas, say, tax credits looked over the year and you had a certain income from tax credits unless you had a significant change of circumstance. People were then able to budget on the basis of having that surety of that income.

Shaun Bailey AM: That is the tension, is it not, this system that is responsive, that then is initially more complicated but ultimately is probably a bit simpler because the number of benefits that were shooting around beforehand was a bit much.

Kayley Hignell (Head of Policy, Citizens Advice): Yes. I myself am a welfare benefits advisor and I lose count of the amount of better off calculations I have done that go, "So if you do this many hours in tax credits and this many hours for JSA, with Housing Benefit, how does that all interact?" It is massively complicated, so it is good that we have one system that looks at it. The challenge is that system has to reflect a diversity of ways of earning and different income patterns. At the moment it works quite well if you have a sure income, it is paid on a monthly basis and you are not self-employed. In many ways it can work well for you. If you have diversity in the way you earn, then UC creates new challenges that did not exist in the legacy system.

Shaun Bailey AM: Neil, are you planning a system that will have that?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): Kayley spoke very clearly about the kind of issues we both experienced and spoke about through 2017, and arrived at the conclusion that Citizens Advice and Citizens Advice Scotland could provide a service there, what I colloquially call "crossing the bridge", basically making it safely on to UC.

What we are trying to do here is effectively three benefit systems' worth of verification in one go. People often compare UC to the old system but if you think a tax credit renewal took 12 weeks, or that Housing Benefit administration in most councils took up towards a month to do, you can see that a process that takes place across a month is, for many people, an improvement.

We agree with Citizens Advice; we want more people to be paid in full on time. About a third of people are not being paid because they have not signed up to their commitments and UC is a conditional benefit. You have to do things to get it. We make no apologies for not paying those people but there are a bunch of people, as Kayley was saying, who need help and support through the system and that is what we are looking to Citizens Advice to provide and we have funded them to do that. We have changed the way Universal Support works for exactly that reason.

There is always a constraint on your design of any system. If you take monthly assessments, which are a core part of the system, it has been put to us, certainly by some of the organisations representing self-employed people, that it would be easier for them if it was annual, if you did an annual assessment like they have in tax credits. What you get from that is they currently have the burden of trying to recover £5.9 billion worth of tax credit overpayments from people inside of UC because of the debt that grew up over years and years.

The other factor is that 10% of people who are self-employed and on tax credits are also earning. Their earnings will be coming into the system weekly, two-weekly or monthly. There will be people who are self-employed whose partners will be earning. You cannot have a mix and match system here. You have to have a monthly assessment. It will mean that, for some, you cannot optimise this system from every individual's perspective. You have to make some design choices and then make sure that you render assistance to those people who are experiencing more difficulty than the vast majority. That is what our relationship with Citizens Advice is attempting to do.

Susan Hall AM (Chairman): I believe you just touched on it, the reforms in the Budget. Generally, I am getting the impression that the reforms in the Budget are making a difference in a positive way to improve --

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): Can I just make a point about the Budget regarding the self-employed? We did some modelling and the self-employed are worse off from April because of the Budget, even though the money has gone in, because the minimum income floor is based on the National Minimum Wage. Therefore, if you increase the minimum wage you increase the minimum income floor. Of course, the self-employed who do not have children are not benefiting from the work allowances. What we found is that self-employed people without children would be, on average, about £9 a week worse off from April 2019.

Those who did benefit from the work allowance extension would be £2 a week better off. Obviously, the work allowance is being offset by that minimum income floor, but they end up being slightly better off. Overall, there is a slight drop in income for the self-employed after April 2019 and that is not to do with the increase in work allowance. That is also to do with the minimum wage increase, which everybody supports. It has just had this unfortunate effect.

Susan Hall AM (Chairman): It has a knock-on effect.

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): Yes.

Caroline Russell AM: I am going to continue talking about support and advice from where Shaun has left off. First of all, I just wanted to pick up on something. Someone was talking about errors. Certainly, as a councillor, I experience casework with people on UC where errors have been made and that then carries on for months trying to sort that out. I am wondering if anyone can tell me how people who are on UC can get errors revised effectively and quickly so that the problems of UC being paid wrongly do not continue for too many months. Is that one for you, Kayley?

Kayley Hignell (Head of Policy, Citizens Advice): Yes. At Citizens Advice, for many years we have helped people with benefits, whether it is the legacy benefit system, which is our biggest enquiry area, or now UC coming in as well. What we find, in terms of when things go wrong with somebody's UC award, is that often it is around not having the right elements in place or having inappropriate conditionality, for example. Those kinds of things, perhaps where there is a sanction that needs to be overturned.

What we find is when we call the service centre - we help people; they come to us and we act on their behalf or with them - it can take longer to resolve, though I cannot give you data on that because we record what people come to us about, not necessarily whether the problem took two weeks to resolve, or four weeks to resolve, or was resolved on the spot. We know that it can be more complicated.

There have been some changes to the way --

Caroline Russell AM: Sorry. It is more complicated if people?

Kayley Hignell (Head of Policy, Citizens Advice): To fix issues. Some of that is just because it is a new benefit system. When we are calling the Jobcentre or the service centres, it can take longer to get to the bottom of what is going on. There are challenges around implicit consent and explicit consent. The way advice providers can support individuals has changed, partly due to data protection. It basically means that every time we support somebody we have to potentially get a new explicit consent from that person that we can help on their behalf. That causes an extra challenge, an extra barrier and it can take longer to sort out. I understand the Department are looking at that in some ways. In the old system, effectively, if we were seen as a representative, if we had some kind of consent signed off, if the person was with us and gave consent, we could then act on their behalf. That has become harder in UC to do.

There are two problems here. There is a new benefit system so it takes longer on the DWP or the Jobcentre side to fix because it is harder to get to the bottom of what is going on. Then the second challenge is it has become harder potentially, in our experience, for advisors and support workers to act on somebody's behalf and to help them with their claim. In two ways, it has become a little more challenging.

Caroline Russell AM: Is that something, Neil, that is being looked at in terms of how these kinds of problems, the fixing of errors can be streamlined and sped up?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): Yes. One of the things we have done recently is put in something - apologies for the management jargon - called call routing. We currently run, or we used to run, a virtual telephony system across the whole country. If you would ring up, you would get through to somebody and they would have to start on your case from scratch. That is what Kayley is alluding to in her evidence in terms of the experience there.

What we have done since the summer is roll out call routing, which means we can identify from your number where the call should be routed to, to which team. Say we have our service centre in Canterbury and your case is dealt with by Canterbury: it will try to route the call to that team, to your case manager. If your case manager is not there, then it will go to the team there. That means that the team already know your case and can cut out maybe ten minutes' worth of questioning about what the basis of your enquiry is and so forth because they know the issues that you may be facing. The recent changes that have been made to call routing allow the advice agencies as well to identify as they call through to get themselves call routed. Not every call is routed and also some claimants do not want to be routed to the teams administering their benefit, but that is one of the things where we are trying to address issues as they emerge.

I agree with Kayley that it is a new system and we are recruiting people to it. We have variable levels of experience within the system but you are seeing sustained performance improvement going on. This time last year I was under a lot of pressure, particularly from Kayley and her colleagues, about the decision to expand the rollout from the small number of pilot offices we had to running 50 a month, going to 50 Jobcentres a month. It was a lot of, "You cannot cope", but in that space of that year we put a million people on to the UC full service and the payment timeliness has gone up from gone 74% to 84% in terms of people paid in full. I think the DWP is showing it can both expand the service and improve levels of service that people are getting.

Is it good enough yet? No, it is not. We aspire to high levels of customer service, as my new Secretary of State was saying just in the House [of Commons] yesterday.

Caroline Russell AM: UC reporting is all online and I am wondering if that is a particular problem for some self-employed people. Andy, if you would like to start on that.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): Yes, it is for some self-employed people, as Kayley [Hignell] touched on earlier. There is another big Government project going on called Making Tax Digital which is experiencing some similar teething problems because there is this expectation that people are going to interact with the system digitally. It is a bit like UC. There is an expectation that you will interact digitally. With Making Tax Digital, everyone is going to have to go online and report their income and outgoings to HMRC as part of the new process.

What they have discovered there is that there are a couple of groups, one they call 'digital excluded' and one they call 'digital assist'. The digitally excluded are a group that do not have particularly good access to online platforms. They do not use computers. They are extremely nervous about interactions via some sort of digital interface. They are a particularly difficult group. The Government has made some exceptions for that group and they are working out ways to get around that problem.

'Digital assist' is a slightly lower category where they recognise that there are some problems. These people will be able to interact digitally but they will require some assistance to do that. It is self-employed people, largely, who we are talking about here because certainly in the initial phase of Making Tax Digital they were the ones who were going to be asked to be onboarded first. They revised that somewhat, partly because of this digital exclusion problem.

There is either an inability or a reluctance, depending on which group you are in, to interact via the digital programmes. That is a barrier to some.

Caroline Russell AM: Of the groups where it has been rolled out, is there any data on whether those who are either digitally excluded or in need of digital assistance are more likely to have errors and issues with their UC payments?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): Can I give you the data I have? From our self-employment tax credit survey, it was reported that monthly reporting is not a problem for most if they compile records monthly. We have got 97% of people now reporting their self-employed earnings online. When we surveyed them, 85% said they found online reporting easy, 6% said hard and 37% of people are doing their reporting outside of normal business hours. They are doing that in the evenings or whatever. Digital brings challenges. Andy [Chamberlain] is quite right to say it brings challenges for a small minority, but it also brings advantages, the ability to interact with Government outside of office hours and not have to interrupt your work to come and report stuff to us.

Caroline Russell AM: It is useful to understand those percentages of people who find it easy or hard, but of that 6% who said they found it hard, do they have a disproportionate number of bits of friction in terms of how they are receiving UC?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): If you focus on the 3% who are not reporting online, they are ringing us up to report their self-employed earnings. They are managing with the digital system by not being digital. That is their choice. They have to ring up in office hours in order to report that. We try to encourage people to go online. We think it is a better service for them and it makes the system run better as well internally in DWP where we can get that to work, which is why HMRC are trying to make tax digital. We are doing something similar with UC. However, we are the system of last resort so we always have to have systems that cope with people who cannot interact with us in a digital way.

Caroline Russell AM: But you do not know whether there are more problems for that 6% who find it hard to report online? Are they ending up with more errors in their cases?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): The error they will get is that if anybody reports their self-employed earnings late, they will see an interruption in their UC payments. We do a lot of work with self-employed people to say, "Please report your earnings on time. Do it online. If not, ring us up". Some self-employed people forget to do that. They are busy, maybe they are trying to expand their business at that point and they just forget to do it. We will put the payment back in place as quickly as we can once we have got the self-employed declaration of their earnings. Is that a feature of not being digital? I do not know the answer to that. My assumption will be it is better to do it digitally because it turns up in the workflow then for somebody to assess the case rather than ringing up and waiting for that. It is a service that is there for people, but we encourage them and we try to coach them through the best way to make sure their payments arrive on time.

Caroline Russell AM: The fact that they have to do that reporting is a particular problem for self-employed people because if you are employed your income is simple.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): It automatically comes to us and they do not see it, yes.

Caroline Russell AM: Faisel, I am just wondering, in Fair Finances' experience, what are the most common money worries that self-employed people raise?

Faisel Rahman OBE (Managing Director, Fair Finance): There are mainly the two that I touched on earlier, which are the two very lumpy, large payments that they need to make. Effectively HMRC payments and rental or deposit payments are the biggest challenges for them, whether those are rental payments to do with work or rental payments to do with personal finance. They are the biggest areas in terms of finance.

One area that we do pick up quite a lot is that often we are working out the problems that many of these businesses have when they fall into arrears. We do not miss the point that many of these businesses are spending a huge amount of time managing lots of complex finances and not enough time managing their business. That surprised us quite a lot. In the defaulted businesses that we have worked with over the last year, we found that nearly a third of them were spending more time organising their personal finances than they were thinking about their business.

I suppose my reflection on looking at some of the conversations we have here is that a lot of it seems to be around managing a system and very little of it seems to be about managing the opportunity. The point around starting entrepreneurship and innovation is that if you are spending most of your time managing something that is in your business, you are distracted quite heavily. I suppose I worry when I hear these kinds of conversations about how much time we spend talking about process, and not looking at the opportunity people are giving up to do something that is significant, something to gain more income or allow them to lead a lifestyle in a sustainable way that they could not in other ways.

Caroline Russell AM: When you say that people are spending a huge amount of time or they are being distracted by the need to manage their personal finances, in the Committee we heard last year [2017] when we did the report on the financial health of Londoners, about people needing to take out multiple small loans, paying bits of credit card debt and borrowing from friends and family. Are you saying that kind of financial precariousness impacts on people's ability to cope with UC?

Faisel Rahman OBE (Managing Director, Fair Finance): I do not know specifically about UC. We have very few customers; as you say, it is a small group of people. Around 60% of the businesses have some form of benefits. I suppose I would turn it around to tell you that what we do see increasingly is - and we touched on it earlier - that the challenges of managing so many different types of payments and vulnerabilities takes time and pressure.

We find the people who default have found it increasingly difficult to manage those levels of complexity. In those senses, I suppose I am making a judgement that juggling all of those systems, the personal finance pressures, the business finance pressures and the other kinds of pressures that they are having, is taking up their time. One of the things I have observed is that it is often a lot easier to get access to small amounts of credit than it is to get access to the right kind of advice. I find that quite interesting.

I also find it quite interesting that it is easier to borrow from a payday lender than it is to negotiate with one of your creditors. I also find that quite a problem. I sat with utility providers and asked them to explain to me why their customers would prefer to use a high cost, payday lender to ringing their service line to restructure their finances. There is something here that is much broader than just the individual circumstance of the business. It is the wider life around them that they have to navigate and the less money you have, the less time you have. That is what makes many of these things precarious.

I take all the points around the positiveness of UC combined with lots of different discussions, but it is one part of a much broader ecosystem with complexity that these people have to manage that will not be addressed by simply changing the benefit system. It is a much broader issue about financial management, capability, resilience and other types of financial products. Until we find a way of giving support to those people that is as quick and as simple and as useful as currently provided by very expensive finance, we are going to be in a similar position where lots of opportunity is going to go begging.

Caroline Russell AM: Are you thinking that if the Government is running a benefit system, they should also be providing citizens with advice on how to use credit responsibly if you need to, how to manage finances? Are you saying you think it would be useful for the benefit system to incorporate some of that financial advice side of things?

Faisel Rahman OBE (Managing Director, Fair Finance): I am not sure who the best person is to provide the best kind of advice, partly because people do not like listening to people they do not trust. Finding the right vector is probably the most important thing when you think about providing financial advice and capability. It is an important variable for people to consider. I did not know a huge amount about the plans for long-term coaches for people moving into different types of benefits, but it does feel like if they do not have some of that knowledge or understanding then they will not be able to give people the right advice.

In the broader environment, there is precious little support around financial capability and financial management that people have access to. A huge amount is done to give it to children in school. There is lots of discussion around improving financial management at that level but there is not that same level of detail being done for adults. You can get a lot of help if you are in bad trouble, but the challenge is how you help people who have not quite got there. I do not think there is a proper provision of that type of service.

Caroline Russell AM: Jennette will be picking up on that financial capability issue some more in a minute. Does Fair Finance give personal loans or only business loans?

Faisel Rahman OBE (Managing Director, Fair Finance): We give both.

Caroline Russell AM: You give both. What is that proportion of personal loans that you are giving out to people who are in receipt of benefits?

Faisel Rahman OBE (Managing Director, Fair Finance): Of the lending that we do each year, about 70% of our customers are in some type of benefit, whether that is fully provided, but all their income is provided by them. The proportion of it is around 70%. That is significant; that is in the personal lending side. On the business lending side, it is much lower. It is probably about 30%, 40%.

Caroline Russell AM: Are those loans that are helping people to navigate significant financially difficult moments or are they loans that are about long-term, steady situations?

Faisel Rahman OBE (Managing Director, Fair Finance): Broadly, I always joke and say that I think Fair Finance was set up about 20 years too late. A significant chunk of the lending that we do is to refinance high cost lending. Most of the time, we are taking people out of high cost and unsustainable finance that they are struggling to pay, therefore, maybe 60% to 70%.

A significant chuck of the lending is also around one-off items, replacing something that might be broken, a washing machine or cooker, moving to a new flat or property is all in the personal finance place. All the business finance place is usually around one-off items, whether that is to pay for stock or to replace machinery, to cashflow a transaction or to put a deposit on to something as well as financing high cost providers.

Caroline Russell AM: I have one more question for you, Faisel. I gather you are in favour of open banking and I wonder if you could say a little bit about what open banking is and why it is important for the financial health of small businesses.

Faisel Rahman OBE (Managing Director, Fair Finance): I can tell you that we think it is. It is an interesting area. The broad word of open banking is just access to banking data and information. We use it quite a lot in a company to access transactional data that people have within their bank accounts. Being able to use real-time, live information of what is happening in your bank accounts is important to help us figure out what your cashflow is. Often, you will not know as well as the bank details might do, and the bank is not using that data to make decisions. We use that, and it helps us reduce the transaction cost. Rather than asking to give us a printout of your payments, putting that into a spreadsheet and trying to figure out what is going on, we can take that data and within a few seconds produce a cashflow, either of your personal life or your business life. We can use that assessment to understand who you owe money to and who you do not and what you are paying, as long as you put your transactions through your bank account.

What is interesting for us is that about 70% to 80% of the businesses we work with use that service but only about 40% of the personal finance customers use it. There is a big split between people who are running their business and working online predominately and accessing that service, and people who are personal. It has a huge potential to reduce cost but we are also mindful that this does have issues that have been touched on, issues around digital exclusion and people who are not using online banking. If you do not use online banking, you cannot use open banking very easily.

We have seen this market of open banking providers develop very fast, which has seen a huge increase in the number of online lenders, aggregators and options for people to access finance. While we are super supportive of what is possible, the reality of what we have seen has not been fully realised. Although you now have more access to finance, it generally is not cheaper, and you might have had that assistance from the bank. Although you might have quicker and faster providers, quicker and faster is the only advantage that these providers have, not price. What we have seen in this market is an industry that is trading in speed rather than price and often trading in speed rather than responsibility. In order to gain market share, we have seen many small businesses and individuals become overindebted very quickly.

One thing we talked about at the previous evidence session. Most people know that small business lending is unregulated. That means that the transparency of interest rates and collection practices are not as well covered as for consumer finance. Where this overlaps to the conversation we are having here is that if a lender was to lend to a self-employed business they would be caught under the consumer credit legislation which means they would have to advertise their annual percentage rate. They would have to have a consumer credit licence and they have to be bound by all the regulations the Financial Conduct Authority have put around as possible lending and collection practices.

The net result has been that all these institutions that are created for fast, quick analytics around your lending have chosen not to lend to self-employed businesses because they do not wish to be regulated in the same way. There is an increasing level of financial exclusion for self-employed businesses to access appropriate and flexible finance.

The net result has been that many of these individuals and many of these small businesses are using very expensive, high cost personal finance providers to give them access to credit. One of the things that is often unsaid in these conversations around what is happening in this market is that we are building a fast, transparent market for small to medium enterprise (SME) lending. We are improving the regulation for personal finance lending and in the space where the self-employed businesses are, we have expensive finance designed not for them being accessed because all of the innovation is happening to a different group of people. This raises some real challenges for self-employed businesses that not only are they struggling with complexity; all of the innovation is not happening in their market.

We work with a number of mobile app providers, fintech providers and others and I have been surprised that they are either designing solutions for personal finance use or business finance use. There is nothing for the complexity of self-employed businesses that overlap those two. There is a big space here and it links in very closely to this discussion around what the right type of advice is and what the right type of support is for this group. The truth is that nobody is providing it right now. They are sitting in the inappropriate personal finance or the fast, innovative SME finance market that does not work for them. While I am very supportive of open banking, nobody is working in this market yet.

Caroline Russell AM: Are there any other challenges on support and advice, or anything that we have not picked up before I hand over to Jennette? No. Thank you.

Susan Hall AM (Chairman): One thing this is throwing up is that being self-employed, there are many more challenges than people realise when they go into it. That is for sure. Right. Last but by no means least, Jennette.

Jennette Arnold OBE AM: Thank you, Chair. This section is a pretty core section for us because what we need to do is to be seeing what the Mayor can do in this area. I just want to start off by coming back to Faisel.

Just for clarity, in your last comment you said nobody is providing adequate -- what is that, financial capability support or general support?

Faisel Rahman OBE (Managing Director, Fair Finance): This is specifically around self-employed businesses. We have struggled to find the right type of advisory support that will help these businesses but we have also struggled to find the right type of financial management support, whether that is around what we would call financial capability in your personal finance. We have struggled to find something that is appropriate for these businesses.

Jennette Arnold OBE AM: That is very interesting. I am told officers looked at cities and came up with what is going on in New York City. Bearing in mind the difference in personal and business tax take, which is totally distorted in that London retains 6% and New York has 50% take on both personal and tax, are you aware of the work that is going on in New York City in terms of enabling -- I am not sure. I would think it is targeted so let us say that it is targeted at low-income New Yorkers. Are you aware of those sorts of initiatives that the New York Mayor has taken? If you are, could the Mayor of London take comparable initiatives?

Faisel Rahman OBE (Managing Director, Fair Finance): I am aware of some of the work that they have done. They have taken a long-term view around providing consistent support for individuals who are requiring financial support both in terms of finance and in advice. What I think they have done is quite interesting in how they think about making long-term commitments. One of the biggest challenges is that it is very difficult to know where the next piece of advice is going to come from because often institutions disappear very quickly. First, I would say, yes, I am aware of some of the activity and I think the most important thing they have done is to take a very long-term view about it.

You are right, obviously the Mayor of New York has different resources to the UK, but what they have done in America more broadly is that they have found a really positive way of engaging with large corporations and institutions to back and support different forms of innovation and provision of services. One of the most interesting things I have seen in New York has been investment bank-funded foundation-funded activities around looking at the financial diaries of people who are on low income. I do not think work has been done in the UK in the same way, really trying to understand what the reality is of people who live on low income. How do they budget and make those choices that are appropriate to them?

In some ways, I think America has done a lot better by using these large institutions to finance new forms of innovation for non-profits, using those foundations to finance research through non-profits as well as through public institutions to create a much bigger evidence base of what could work. We are doing a current piece of work right now funded by the JPMorgan Foundation and we have partnered with an organisation in the US who are very much involved in financial services design. I was very much struck by how integrated the relationship between corporates, the public and non-profits are in looking at solutions in this market, both technology and non-technology-related. There could be a lot more done in terms of transitioning and transferring some of those learnings because I think the issues they are dealing with are no different to the issues we are dealing with here.

Jennette Arnold OBE AM: Andy, there is an initiative called the New York City SafeStart Account, which is where New York City has partnered with seven banks and four credit unions to offer a safe and affordable starter account. Going back to what we have been hearing about that first year -- I do not know if Kayley is nodding. If she is, she can come in later.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): This is a bank account, is it, that is tailored toward start-up businesses?

Jennette Arnold OBE AM: Yes.

Andy Chamberlain (Deputy Director of Policy, Association of Independent Professionals and the Self-Employed): One of the things that I do think is attractive about that is that we have been trying to do a piece of work. I think we have worked with the Money Advice Trust and possibly even Citizens Advice before we have tried to explain to people the benefits of having a separate bank account from their personal account, because what you will find is many self-employed people simply merge the two together, which very quickly can become quite messy. There are lots of advantages and almost all the financial advice says it is quite helpful if you just get a separate business account. You can see what is going in and out of the business and it helps you to plan and do various things. It shows you what you need, where the shortcomings are and so on.

That sounds attractive, if for nothing more than the fact that it would be a very good nudge to people to get a separate business bank account when they start their business, which would be the best time to get in there to get them set up and doing that. I am afraid I do not know very much more about it than that. I only know what I read in Pauline's excellent briefing about the initiatives in New York, but it does sound to me like it could be a good idea.

Jennette Arnold OBE AM: Yes. No, I have only picked that out as one of five good examples. I am sure there are more. I am just trying to hone in because it is always easy to shout, "The Mayor should be doing something" and then when you come down to it, it is: what is it that the Mayor should be doing? Kayley, you have a minute with the Mayor in the lift.

Kayley Hignell (Head of Policy, Citizens Advice): I have the privilege of a minute with the Mayor.

Jennette Arnold OBE AM: What do you want him to do?

Kayley Hignell (Head of Policy, Citizens Advice): I think financial capability education, advice and assistance is something that really is important. I say that in line with what Faisel [Rahman OBE] has been saying, specifically targeted at groups that face extra challenges like those who are self-employed. This kind of funding does exist in many ways but it is not targeted to those groups in that specific sense and lots of places are unwilling to either finance or give advice in that way because of the complexity and because of the extra risks involved. There is something about using any capital to help innovation in that space so that businesses can start taking those risks. There is potentially something there for the Mayor to do.

It was mentioned earlier by Zoe [Charlesworth] around council tax schemes, council tax support schemes, and the risk of MIF, the minimum income floor, in those spaces is really high and really detrimental, especially as there is no extra support in place in those areas either in that policy. That is something that I would advise or ask the Mayor to look at in terms of councils and their actions there.

The New York equivalent, the New York package there is really important in that it is a package. It is identifying all of those different elements that people are struggling with: access to appropriate accounts, access to finance, access to advice and support. Crucially in terms of what we are talking about today as well with UC, there is something in here about products that smooth income. We want a benefit system that gives people enough money to live on. We also want a benefit system that gives some people certainty and security of that income so that all of their bandwidth is not taken up thinking about how they are going to pay their bills and the like. From our point of view at Citizens Advice, we want to see improvements in UC to give more surety and certainty of income but there are things that products can do in addition to that, banking products and the like, to help people smooth that income. There is some innovation space there for sure that I think the London Mayor could push.

Jennette Arnold OBE AM: In August [2018] - it is early days yet - the Mayor said, in answer to a question at Mayor's Question Time, that his officers will actively explore opportunities to work with boroughs and civic society organisations to ensure the effects of the UC policy shortcomings, as he has identified -- has anybody been approached by an officer from the Mayor's Office yet?

Kayley Hignell (Head of Policy, Citizens Advice): I would have to ask our London Citizens Advice specifically about that. I can do that and report back if that is helpful.

Jennette Arnold OBE AM: Yes, because you seem a reasonable first point of call. In May 2018, in answer to a question posed during Mayor's Question Time by my good colleague here, Andrew Dismore [AM], the Mayor said:

> *"Over the coming months City Hall will be doing work to understand which groups in London are most at risk from the reforms to allow me to better advocate on their behalf."*

Now, people always forget the power of advocacy and enablement that is enshrined within a mayoralty. People always go to the pound sign first. Zoe and Ben [Fell], have you had any contact with the Mayor's Office about your data gatherers or your modellers?

Zoe Charlesworth (Policy and Product Manager, Policy in Practice): No, we have not but we would love to show it. We can break down completely the impacts by all sorts of different cohorts and all sorts of different groups. We can see exactly how much they are going to be affected. We can see immediately any sort of changes being proposed by the DWP. You could look at any particular group and see the impact on them, and we can also see obviously where help should be targeted for people who are going to need the help the most. We would love to hear from the Mayor's Office.

Jennette Arnold OBE AM: So there is a capacity there. Neil, I do not really know how you work with the mayoralty if it is appropriate.

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): The mayoralty speaks to Government on a number of matters. I would not presume in a public environment to try to advise the Mayor, although if he has not been to see UC in one of our London Jobcentres he should because he will see the massive amount of good it is doing. As my Secretary of State said yesterday, we have problems still to work through but for the majority of people UC is working well. I really encourage him to come and see that and feel that for himself.

Jennette Arnold OBE AM: You are saying, from his statement earlier on this year in terms of the policy shortcomings, that he needs to go and see whether those shortcomings are evidenced?

Neil Couling CBE (Universal Credit Director General, Department for Work and Pensions): We encourage local councillors, Members of Parliament and Members of the London Assembly to visit and come and see UC for themselves and make their own judgments about just how well it is going. I do not say that as a criticism of anybody. I just think you cannot do any better than actually going to see something for yourself and experiencing it.

Jennette Arnold OBE AM: Yes. No, I totally agree. I do not think there is any further I can go with this.

Susan Hall AM (Chairman): Thank you. Well, we are coming to the end. Clearly new systems take a while to bed in and it has to be right that one system is better than six, even though we are bound to have some teething problems. It is always essential that people are better off when they are working than when they are on benefits, and I am sure we all agree with that. It is something we must all strive towards.

I sincerely thank all of you for your contributions today. It has been really, really interesting.