

LOCAL GOVERNMENT ASSOCIATION – WRITTEN EVIDENCE (EUC0120)

The economics of Universal Credit

1. About the Local Government Association (LGA)

- 1.1. The Local Government Association (LGA) is the national voice of local government. We are a politically-led, cross party membership organisation, representing councils from England and Wales.
- 1.2. Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.

2. Summary

- 2.1. Universal Credit (UC) has made significant changes to the way in which people receive working-age benefits. The stated focus of the programme has been to incentivise employment and tackle poverty. We support this ambition. Councils want to support our residents to fulfil their potential.
- 2.2. Universal Credit is delivering a substantial, complex and necessary redevelopment of the systems, processes and resources through which benefits are delivered, including those within the IT infrastructure.
- 2.3. Universal Credit is part of a wider programme of welfare reform. The LGA is concerned that DWP has at times prioritised operational delivery of UC over ensuring that the welfare reforms as a whole, many of which underpin UC, are improving wider outcomes for low income households and providing an effective safety net.
- 2.4. Local government continues to play a role in the benefits system and is a key partner in providing integrated support for claimants. The UC programme would benefit from recognising and engaging with the work of councils in providing housing, financial inclusion, health, social care and safety net support to claimants.
- 2.5. Councils work with national and local partners to provide claimants with both transitional and ongoing support. This role of councils should be better resourced to ensure effective and integrated employment and poverty reduction services.
- 2.6. Councils want to improve the lives of their residents and can do so much more with the necessary support from the Government. The Government should review the role of vital

discretionary funding for councils, including Discretionary Housing Payments (DHP) and put this funding on a more secure, long-term footing. We are also calling on the Government to reinstate separately identified funding for local welfare schemes. This will enable councils and their partners to continue vital work on housing, health, skills and financial inclusion that supports the role of work coaches and enables people to meet their claimant commitments and do well on UC.

- 2.7. The growing affordability gap of housing in many parts of the country is presenting councils with significant costs and challenges in meeting the needs of homeless and struggling households. Councils are concerned about the impact on their finances (for example from rent arrears, or the retention of housing benefit responsibilities), and the need to provide services and support to their residents. The Government should restore the Local Housing Allowance (LHA) rate to ensure that they enable people to access at least the 30th percentile of market rents.
- 2.8. Councils and housing providers in all sectors are seeing rent arrears increase when households move on to UC. We appreciate the changes that have been brought in by Government during UC implementation to attempt to address this issue. However, there are some challenges that remain both with the design of UC itself and the entitlements that underpin it, as well as in wider housing and employment policy, that mean that councils and households continue to face increasing levels of debt and arrears.
- 2.9. Successive national governments have sought to reform the employment and skills system over the last two decades, however we still have one of the most centralised systems in the developed world. This has led to the lack of a joined-up approach in supporting residents into employment. The UC programme should consider how best to integrate skills and employment support for local communities. The LGA has produced [Work Local](#) an ambitious but practical solution to improve employment and skills services through local public-private collaborations. In [Work Local: Making our vision a reality](#), the LGA sets out how the system should work and demonstrate clear benefits of this approach for residents, delivery organisations and the economy.

3. How well has Universal Credit met its original objectives?

- 3.1. The original stated intention of UC was to simplify the benefits system to make work pay.
- 3.2. The overarching policy aims were to:
 - 3.2.1. Encourage more people into work and to make even small amounts of work pay and be seen to pay.

- 3.2.2. Smooth the transition into work by offering a single benefit that removes the distinction between being in and out of work.
 - 3.2.3. Offer a simpler support, with one system replacing multiple systems, therefore reducing administration costs and the propensity for fraud and error.
 - 3.2.4. Tackle poverty both through increased take-up since the system will be simpler and from increased reward from employment for the customer.
- 3.3. The introduction of UC has included the design and implementation of a complex, large-scale new IT and human resource infrastructure to replace the systems and services that previously delivered a range of legacy benefits. The scale and complexity of the programme was significantly underestimated at the outset. This has led to delays in implementing UC. The original proposal was for the roll-out to be completed by October 2017. The current end-date is proposed to be September 2024.
- 3.4. This delay has had implications for councils, who were initially told that they would no longer be administering housing benefit after 2018. Although UC full service is now moving rapidly to scale, councils still administer housing benefit to a significant minority of the most complex cases, and to pension-age claimants. Councils have had to sustain and manage revenues and benefits services in the face of considerable ongoing uncertainty, and with a persistent shortfall in administration funding.
- 3.5. The UC programme, as it is currently managed by the Department for Work and Pensions (DWP), has robust and detailed operational and financial oversight. The LGA agrees with the DWP's position that the IT and administrative infrastructure for working-age benefits needed to be updated. On these terms, the programme can now be said to be moving decisively towards delivering as intended.
- 3.6. Whether UC is delivering its policy intention of incentivising employment and tackling poverty is a more difficult question to answer. We address this in more detail in our responses to the questions below.

4. Were the original objectives and assumptions the right ones? How should they change?

- 4.1. The UC programme is in its eighth year of delivery, its seventh Secretary of State and its third Prime Minister. It is therefore natural that its objectives and assumptions have shifted. The LGA does, however, have some persistent concerns:
 - 4.1.1. We understand the Department's need to ensure effective operational delivery within the UC programme,

however this has taken precedence over working with partners to review and secure broader policy outcomes, particularly when engaging with the LGA and councils. As leaders of places, councils are not only concerned about their role in delivering benefits, they are also concerned about the impact of welfare reform and UC implementation on their communities and wider service objectives.

- 4.1.2. We understand the Government's key focus is increasing employment prospects for UC claimants. However, it is our view that more attention and resource needs to be placed on the context for sustaining employment outcomes, in particular housing stability. We would also like to work with DWP both locally and nationally to improve both the quality and sustainability of employment. In-work conditionality is largely focused on reducing benefit spending rather than securing better long-term employment outcomes.
- 4.1.3. As UC implementation progresses, we are calling on the Government to ensure that it is developing the evidence base to support its view that UC has contributed to reduced unemployment. It must also look beyond reducing unemployment to recognise wider challenges with low pay, skills deficits and underemployment. Developing this evidence base could identify more effective and innovative ways to improve employment support and outcomes in partnership with councils.
- 4.1.4. UC Credit needs to be considered as part of a wider social security safety net that integrates with key services including housing and health. Councils face a number of pressures related to UC and welfare reform that can and should be better addressed through a more integrated approach. These include rent arrears, homelessness, mental health and financial exclusion.
- 4.1.5. We do not agree with assumptions that councils will have little involvement in the benefits system once UC is rolled-out. Councils continue to administer housing benefit to some of the most vulnerable claimants and administer discretionary housing payments. They have the statutory responsibility for housing UC claimants and provide social care and a wide range of other safety net services, which are affected by the benefits people receive, and that interact with support and advice that Work Coaches and the UC programme need to provide.
- 4.1.6. Councils commission and provide financial support and debt advice services for their residents. This sits as part of a wider cross-Government approach to address problem debt and reduce financial exclusion. UC places more financial responsibility on claimants than the legacy system. This is occurring at a time when many net

household incomes may be lower or more precarious, due to factors such as the growth of the gig economy and high rents. The positive contribution of effective partnership working, and the fact that councils often have shared responsibility for the finances, wellbeing and employment outcomes of UC claimants needs to be more effectively recognised by the Governmentⁱⁱ.

4.1.7. The original objectives and subsequent business case of UC did not place an emphasis on the importance of housing affordability and long-term financial wellbeing. Budgeting advances are helpful for some claimants, but they are not a solution for households who are in a sustained financial deficit. While many Jobcentres work effectively with councils, Voluntary and Community Sector (VCS) partners and housing providers to integrate housing and homelessness support with employment support, this is not consistent and is not viewed as a priority by the UC Programme. We are pleased that DWP has recently emphasised its intention to work more closely with the Ministry for Housing, Communities and Local Government (MHCLG) on housing and homelessness. We would also like to see the implication of housing availability and affordability recognised more effectively in the business case.

4.1.8. Peoples' ability to manage their income, develop their skills and progress in work depends on a wide range of other key factors including, stable housing, family relationships, physical and mental health and wellbeing, and accessible and affordable childcare. These are all key services that councils provide, it is therefore essential that this is considered when analysing the economic impacts of UC. It is also important that these services are funded accordingly.

5. What have been the positive and negative economic effects of Universal Credit?

5.1. One of the challenges for the LGA and councils engaging with Government on the design and implementation of UC has been the tendency for the scheme to be presented, on the one hand, purely as an improvement to existing IT and administrative processes for administering benefits; whilst, at the same time it is presented as a significant solution for the economy and labour-market. This is partly because 'Universal Credit' is presented in public discourse as the wide-ranging reform of all the working-age benefits that sit beneath and around it, for example tax credits and support for housing costs, both of which have significant effects in the wider economyⁱⁱⁱ.

5.2. Taking the narrower operational view of UC as a benefits-delivery system, we do not feel it is possible or appropriate to assign positive or negative economic effects to the system alone. However, the OBR concludes that UC is more cost-

efficient than the legacy systems that it is replacing^{iv} and that it is a more efficient use of public money to spend funding on supporting claimants than on administering benefits.

- 5.3. There are economic implications when UC is viewed as a delivery mechanism for wider reforms to the working-age benefits system. Government has taken large amounts of money out of working-age benefits, reducing the generosity of financial support available to many low-income households in the process, without significantly reducing spending on benefits overall.
- 5.4. While this is attributable to a range of pressures^v, evidence suggests that both the persistence of the skills deficit and high housing costs are likely to be factors. Simply reducing the generosity of benefits may need to be accompanied, therefore, by wider policy interventions on housing, education and the labour market to continue to reduce spending on social security as a share of GDP in the long term.
- 5.5. The LGA has highlighted that many 'savings' are, in fact, picked up as costs by councils, particularly in relation to housing, rent arrears and homelessness^{vi}.
- 5.6. The LGA has proposed wider, more integrated solutions for improving outcomes for low-income households, and reducing demand for working-age benefits in the long term. Such examples would involve increasing the supply of affordable housing and giving freedoms and flexibilities to local councils that would better enable them to close the skills-gap.

6. What effect has fiscal retrenchment had on the ability of Universal Credit to successfully deliver its objectives?

- 6.1. We would absolutely agree that it is important the UC programme is able to deliver its over-arching objective to ensure that people are always 'better off in work'. It is the LGA's view that one of the most significant and overlooked implications of fiscal retrenchment has been the detrimental impact on councils' capacity and resources to meet the wider housing, health and support needs of UC claimants.
- 6.2. Councils and local partners deliver a huge range of vital safety net support services to low-income households. In many cases a UC claimant's ability to maintain their claim, progress in work, manage on a reduced income or meet the terms of their claimant commitment are down to 'safety net' support delivered and / or funded by the local council^{vii}.
- 6.3. Fiscal retrenchment has significantly undermined the ability of many councils to provide the levels of support that claimants need, or to successfully mitigate the unintended consequences of UC policy as it progresses through a 'test and learn' approach. For those councils who prioritise this support because they know that it prevents hardship and improves

outcomes, there is constant and continued uncertainty over their ability to continue to provide it in the long term.

6.4. There is also widespread concern about the expectations placed on Jobcentres and Work Coaches, and their ability to deliver appropriate levels of support, particularly to claimants with additional needs, in the current funding environment^{ix} .

7. Which claimants have benefited most from the Universal Credit reforms and which have lost out?

7.1. UC is a more efficient and effective way of delivering working age benefits than the legacy systems it replaces and has the potential to work well for claimants who can understand their claimant commitments and understand and manage their on-line claim. Government highlights the fact that many households are 'better off on UC' than on legacy benefits. The caveat is that this is 'better off' in relation to legacy benefits now (as subject to the other welfare reforms) and not necessarily 'better off' as against the 2012 baseline.

7.2. A significant gap in the discussions around UC to date are the implications on housing and homelessness. This is partly because as set out above, there remains a degree of uncertainty about whether 'Universal Credit' refers primarily to an administrative process, or to the generosity and conditionality of the six underlying benefits it now encompasses (or both).

7.3. Some of the implications on housing and homelessness are directly attributable to UC design. There is considerable evidence that two aspects of UC design have led to increases in rent arrears. These are the wait for an initial payment, and the monthly payment direct to household (where rent would previously have gone directly to a landlord). The DWP has put measures in place to address these issues, by making it easier for households to claim a 'budgeting advance', and by making it easier for a claimant or 'trusted partner', such as the Work Coach or landlord, to request an 'alternative payment arrangement'. While these concessions are welcome, they do not alter the fact that debt and arrears are higher for households on Universal Credit than they were for those in receipt of housing benefit^x .

7.4. Other measures such as the impact of the Benefit Cap, the two-child tax credits limit, or the four-year freeze to the Local Housing Allowance rate, are now often encompassed by UC but are also impacting on people who remain on legacy benefits.

7.5. It can be difficult to separate the effect of UC design from underlying welfare reform. This has led many researchers to highlight the importance of understanding the cumulative impacts of welfare reform on disadvantaged groups. These studies show that lone parents and disabled people are at particular risk of being hit by multiple reforms^{xi}. Poor outcomes

for these groups are often compounded by reduced funding for local preventative and safety net services^{xii}. The centralisation and 'simplification' of UC inherently benefits people who are more able to cope with a service that is delivered in this way. The removal of distinctions between in-work benefits and out-of-work benefits should help people who are able to respond adaptably to more fluid labour markets by moving between low-paid jobs, or who are working in the gig economy, and significant improvements to the online interface clearly benefit more IT literate claimants.

7.6. A major concern for the LGA and local councils is the ability of UC to work well for the significant minority of claimants who need additional help or support.

7.7. The UC Programme has yet to 'migrate' those claimants who have remained on legacy benefits throughout the roll-out of UC to date. The approach to supporting these claimants through their 'Move to UC' is currently being piloted on a small scale in Harrogate. We appreciate the careful 'test and learn' approach that the DWP is taking, but it is important that they properly recognise that these claimants are very often core users of council services such as supported housing, public health, mental health or social care. The Department has posed a particular question – 'who knows me?' in relation to these claimants – very often the answer to that question is 'the council'.

7.8. The ability of many households to manage on UC depends on a range non-statutory but necessary support provided by councils. The LGA's programme of work on '[Reshaping financial support](#)' shows the potential benefits of enabling councils to target proactive support and preventative services for low income households to improve financial security. We remain concerned, as set out above, about the wider safety net, and the long-term funding position of local discretionary support such as Discretionary Housing Payment.

7.9. Evidence shows that 'Help to Claim' support provided by Citizens Advice is not always being signposted to effectively and does not always meet the needs of some claimants, for example those with mental health problems^{xiii}.

8. How has the world of work changed since the introduction of Universal Credit? Does Universal Credit's design adequately reflect the reality of low-paid work?

8.1. The most recent UC Full Business Case stakes its cost-saving claims on increased employment, including returns to the Treasury from increased in-work conditionality^{xiv}. The National Audit Office^{xv} and others have noted that is difficult to isolate the impact of UC on employment outcomes, and that our record levels of employment are unlikely to be attributable to UC alone.^{xvi}.

- 8.2. There is concern that although we have high levels of employment, many in-work households are still experiencing poverty and financial hardship.^{xvii} This calls into question the ability of UC to 'tackle poverty through...increased reward from employment'.
- 8.3. A diverse selection of respondents to the House of Commons Work and Pensions Committee's inquiry into in-work progression within UC^{xviii} noted that conditionality alone had minimal impact on claimants increasing their hours or income. The DWP's own Randomised Control Trial showed only modest impacts from conditionality, which depended on support that may not be replicable at scale^{xix}. All respondents and witnesses to the Committee's inquiry identified a range of other barriers, in particular for parents and disabled people, which need to be addressed.
- 8.4. Many of those giving evidence to the Committee highlighted the limitations of JCP Work Coach support and proposed that support should be integrated more effectively across appropriately JCPs, councils and housing providers, in partnership with local employers.
- 8.5. This supports a range of detailed work carried out by the LGA on the need for a fully integrated and devolved funding for employment skills^{xx}, and the potential economic and social benefits of enabling councils to address the skills deficit.
- 8.6. The LGA has produced [Work Local](#) an ambitious but practical programme to improve employment and skills services in England through local public-private collaborations. The scheme proposes a model for integrated employment and skills that meets the needs of both individuals and employers. There are clear benefits to this approach – for residents, delivery organisations and the economy – in improving how employment and skills services respond to local needs and how they are organised and delivered locally.
- 8.7. Work Local sets out how the system should work for young people and adults. Across a medium-sized combined authority, for example, Work Local could result in 8,500 more people in work, additional fiscal benefits of £280 million and a benefit to the economy of £420 million each year. This approach is needed more than ever to tackle skills and employment challenges of the increasingly changing economies.
- 8.8. Recent analysis for the LGA reveals a growing skills gap^{xxi}. By 2030, it is estimated there will be a skills gap between our future workforce and those required by employers. Across England, it predicts that by 2030 there could be a shortage of two and half million high-skilled people and a surplus of six million intermediate or low skilled to available jobs. This shortfall of high-skilled people could risk future economic growth and an economic output of around £120 billion.

8.9. This supports a range of detailed work carried out by the LGA on the need for properly integrated and devolved funding for employment and skills, and the potential economic and social benefits of enabling councils to address the skills deficit. This is a core stated objective of UC that it could be better enabled to deliver through effective engagement between the benefits system and councils, stakeholders and employers^{xxii}.

9. If Universal Credit does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?

9.1. UC places more financial responsibility on claimants. Evidence shows that some households struggle with the wait entailed by the initial assessment period. Budgeting advances are not suitable on their own for all households for example, due to pre-existing debt or poor budgeting skills. Changes in the wider employment market mean that many low-income households are coping with varying hours and fluctuating earnings, which although not a feature of UC per se, may make it harder for people to manage and adjust to monthly payments in arrears.

9.2. The LGA would like to see UC integrated much more thoroughly and effectively with integrated and locally-led approaches to improving outcomes for low income households across all aspects of service delivery including housing, health, social care and financial inclusion.

ⁱ [Universal Credit Evaluation Framework, DWP, December 2012](#)

ⁱⁱ [Rolling Out Universal Credit, National Audit Office, June 2018](#)

ⁱⁱⁱ [IFS at 50: The future of benefits, Institute for Fiscal Studies, February 2019](#)

^{iv} <https://obr.uk/box/universal-credit-and-the-legacy-benefits-in-2017-18/>

^v [An OBR guide to welfare spending, Office for Budget Responsibility, March 2018](#)

^{vi} [Evidencing the link between the LHA freeze and homelessness, Policy in Practice for the LGA, February 2020](#)

^{vii} [Low income Londoners and Welfare Reform, Policy in Practice and Trust for London, June 2017](#)

^{viii} [Reshaping financial support, LGA, February 2019](#)

^{ix} [Supporting disabled people to work, National Audit Office, March 2019](#)

^x [Safe as Houses 3, Smith Institute, August 2019](#) (see also Safe as Houses 1 and 2)

^{xi} [The cumulative impact of tax and welfare reforms, Equality and Human Rights Commission, March 2018](#)

^{xii} [The cumulative impacts of welfare reform – a national picture, LGA, November 2017](#)

^{xiii} [Understanding benefits and mental health, Salvation Army, February 2020](#)

^{xiv} [Universal Credit Programme Full Business Case Summary, DWP, June 2018](#)

^{xv} [Rolling Out Universal Credit, National Audit Office, June 2018](#)

^{xvi} [Feel Poor, Work More: Explaining the UK's Record Employment, Resolution Foundation Briefing, November 2019](#)

^{xvii} [UK Poverty 2019/20, Joseph Rowntree Foundation, February 20120](#)

^{xviii} [Work and Pensions Committee Universal Credit - In work progression inquiry, May 2019](#)

^{xix} [In-work progression randomised control trial, DWP, September 2018](#)

^{xx} [Work Local, LGA](#)

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<https://www.local.gov.uk/sites/default/files/documents/FINAL%20LGA%202019%20Skills%20Gaps%20report%20final%20December%202019.pdf>

^{xxii} [Local skills deficits and spare capacity, Learning and Work Institute for the LGA, December 2019](#)

