



Select Committee on Economic Affairs

Corrected oral evidence: The economics of Universal Credit

Tuesday 3 March 2020

3.35 pm

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Members present: Lord Burns (The Chair); Baroness Bowles of Berkhamsted; Lord Fox; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 3

Heard in Public

Questions 17 - 24

Witnesses

I: Garry Lemon, Director of Policy, External Affairs and Research, The Trussell Trust; Iain Porter, Social Security Policy and Partnerships Manager, The Joseph Rowntree Foundation; Dr Matthew Sowemimo, Head of Public Affairs and Social Policy, The Salvation Army.

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Examination of witnesses

Garry Lemon, Iain Porter and Dr Matthew Sowemimo.

Q17 **The Chair:** Good afternoon and welcome to our session. I hope you have been told that Josephine Tucker is not joining the panel this afternoon as she is unwell.

Can we begin with how you feel about the idea of universal credit in principle? One of the things that we have been trying to do is to separate in our debate the design of universal credit, some of its implementation and the extent to which it has been adequately funded. One big issue that we have focused on has been the design of universal credit in the first place and to what extent some of the problems that have emerged are due to design. An awful lot of work seems to have been done on implementation and adjustments to implementation, and, of course, a lot of people have spoken about the question of funding. With that in the back of your mind, could we hear your views on whether it is a good idea in principle?

Garry Lemon: A couple of the principles that underpin universal credit are ensuring that work always pays and that the benefits system is simplified. We do not have an issue with those principles; they are good principles.

Alongside those two principles there must always sit another principle, which is that universal credit and our benefits system more widely should never let anybody fall below a certain standard of living. Our benefits system should always ensure that people always have enough money to afford the absolute basics. That is particularly important for universal credit, because it replaces not just JSA; it replaces benefits such as employment and support allowance, which people with disabilities, for example, rely on.

On the background of your question, it is important to separate issues with design from issues with implementation. There have been problems with both sides. I am sure we will go into issues on either side, but I think you will be able to organise your thoughts about it better if you separate the two issues.

Iain Porter: I absolutely echo Garry. I think that we live in a compassionate and just society, and we want a social security system that acts as an anchor against the forces that pull people into poverty. In principle, universal credit has the potential to stem those forces; it can be a real force for good, but it has to be done well.

Some aspects of simplification can alleviate issues in the legacy system—for example, the fact that people moving in and out of work had to keep applying or reapplying for different benefits. Universal credit has the potential to simplify, and it helps some people to keep more of what they earn as they get pay rises or as they take on more hours. It has that potential.

However, to go back to the purpose of a social security system, we probably all agree that it has the fundamental purpose of providing an anchor against the forces of poverty. It is a glaring omission from the original objectives of universal credit that there was no objective explicitly to prevent destitution and help reduce poverty. For that reason, some of the potential has been lost; some of the policy decisions made around it have resulted in the opposite and mean that many people in poverty will be pulled deeper into poverty by universal credit and some will even face destitution: the inability to clothe themselves, heat their homes or even eat on a daily basis.

That is down to some design flaws. For example, one key flaw is the minimum five-week wait, which we see in all our research as a problem; claimants tell us about it all the time. It is designed into the system because of the rigid monthly payment and assessment structure in arrears. Secondly, there is a problem with funding as well, and we cannot avoid that. Universal credit was supposed to be more generous than the legacy system, but cuts over the years mean that now, on an entitlement basis, it is less generous, and that is a problem. It has the potential to stem the tide of poverty, but substantial changes are needed to its funding and design to make it live up to that potential.

Dr Matthew Sowemimo: From the Salvation Army perspective, yes, the original conception of universal credit, having a single taper rate within which benefits are withdrawn rather than multiple rates, which the previous legacy system had, is clearly advantageous, but, as colleagues have already said, the army sees a major design problem. We also see a problem with its implementation.

With regard to the design problem, as has already been said, the minimum five-week period creates a poverty trap. Why does it do that? We know that 67% of people in the bottom fifth income group in the population have no savings, so, intrinsically, they have vulnerability in the waiting period that is an integral part of the design of universal credit. At the Salvation Army Morriston corps in Wales, 98% of people who come to our food bank are on universal credit. You have the overall figure—the 67% I mentioned—and you have that reflected in our direct experience.

On implementation, the key thing that we have said to the Government is that the system needs to be sufficiently sensitive to people who are vulnerable. What do I mean by vulnerability? I mean specifically people who have a mental health barrier in the context of the digital-by-default element of universal credit. You have to apply online, which is a big thing. The Salvation Army survey found that the biggest barrier that people faced in applying was a mental health condition, and a big majority of those people with a mental health condition struggle to use a computer. We found that only 40% of people who reported that problem were receiving support. At the moment the system is not detecting enough of those people, and if they are not detected they cannot be supported to apply online.

Lord Fox: Without overregging the point, Iain, you highlighted that money has been taken out of the system. In your opinion, if we had the default system, the old system, with that amount of money taken out of it, versus UC with that money taken out of it, is there something intrinsically worse, creating more destitution, within the UC system than would have been the case with the default old system?

Iain Porter: I will answer that in two parts, focusing first on comparing universal credit with the legacy system. Universal credit was going to be more generous and now it is less generous, but overall, in headline poverty rates, it is probably back at the point where it is about neutral. What that means is that, by focusing on UC versus legacy, we cannot be diverted from the fact that the implementation of UC has happened against the backdrop of large and significant cuts to the social security system generally over the last 10 years, which have happened to both universal credit and the legacy system. For example, the freeze in benefits at 2015 levels, which will be uplifted only in April, has pulled 400,000 more people into poverty than had that freeze not been in place. That affects universal credit and the legacy system. The importance of that is that it makes universal credit's job a hell of a lot harder in doing what it is supposed to do and what it should do in being an anchor against poverty.

Secondly, on whether there are things in universal credit's design that make it potentially more problematic, you mentioned destitution, and I would pick up on that. Our research suggests that there are certain design features through which universal credit increases the risk of destitution.

Lord Fox: Those are the five-week wait and the digital thing.

Iain Porter: The five-week wait is one of them. The key drivers of destitution that we have seen in our big national research are gaps and delays in receiving benefits, sanctions, to an extent, and unaffordable debt. Universal credit generally increases all those factors. The five-week wait means there is a huge long gap in income at the start. Conditionality under universal credit is applied to a much broader group of people; about 1 million more claimants will be subject to conditionality under universal credit, and sanctions potentially follow. We see evidence from across the board that universal credit tends to increase indebtedness, linked partly to the five-week wait, which puts people into rent arrears. We have examples of people having to borrow on credit cards and going to loan sharks to survive, and that adds to the debt problem. The Government's solution to the five-week wait adds to the debt problem, as they advise people to take out what they call an advance payment, which is just a loan. More than half of universal credit claimants now have some sort of deduction taken from them to repay loans. To summarise, certain design features increase the risk of destitution, potentially, under universal credit.

Lord Skidelsky: The most interesting thing I heard from our witnesses is that the system was not designed to alleviate poverty. What was it

designed to do? I understand that it was designed to simplify the flow of money to people who are eligible. Was it also designed to force people into work, as an ideological proposition?

Garry Lemon: That would be a question to ask the people who designed it.

Lord Fox: They will be here next week.

Garry Lemon: Good, I am glad. Too often when Ministers or MPs are questioned about universal credit and some of the difficulties with the system, or issues around poverty, their answer is that people have to get into work. Do not get me wrong: work is a great route out of poverty, but not everybody can work all the time, and for some groups in particular work can be harder to find and maintain.

A study called *The State of Hunger*, undertaken for the Trussell Trust by Heriot-Watt University, spoke to 1,000 people referred to food banks and looked at ONS and DWP data. It found that certain groups of people are overrepresented at food banks, such as people with disabilities and mental health problems and single mothers. Those are all groups for whom work is harder to find and who need the decent support of the anchor of a good benefits system. The evidence is clear that the system is not working as well for groups for whom work is harder to find.

Dr Matthew Sowemimo: To go back to the question about the original founding objectives of universal credit, the White Paper said that work will pay. A think tank document called *Dynamic Benefits*, which predated the White Paper, envisaged a taper rate of 55p, and, in practice, the taper has become less generous, so work still pays, but not as much as it used to.

That takes the White Paper on its own terms, but then there is the broader question of vulnerability. One thing to add to what Iain said is that 22% of disabled claimants of UC are £1,000 worse off a year under universal credit. Yes, there is the waiting period, which is really important and is the potential poverty trap that we have all spoken about, but there is a specific issue about disability, because of the removal of the disability premia that existed under the legacy benefits. There are particular losers under UC, many of whom are vulnerable.

Baroness Kingsmill: On the design point, given that the causes of poverty are so complex, is it realistic to have a single benefit to address them? I see that it may be more efficient from the supply side, but is it really efficient? Is it working?

Iain Porter: That goes back to one of the original objectives of the designers. One of the benefits projected was that bringing six benefits into one would make it easier for claimants and would result in increased take-up of benefits. At the moment, too many people miss out on the support that they should be able to get through the social security system because of the complications of all those benefits.

Baroness Kingsmill: But it is easier to supply. It is easier to do.

Iain Porter: Yes, that is a really good point about simplicity from the point of view of the system and the designers versus simplicity from the point of view of people who need to rely on the system in difficult times. Generally, people have to claim against the system when they face terrible turmoil in their lives, and they should be able to rely on a system and a public service that provides them solid support when they need it.

Universal credit has the valid aim of doing that. The Office for Budget Responsibility's recent estimates suggested that around £3 billion a year more benefits would be paid out as more people took them up because of that simplicity. From their perspective, the designers saw simplicity. When we look at all the research that we have done at Joseph Rowntree with claimants, and talked to them about their experiences of the system, which we have done across the country, we keep hearing that, although, to be fair, many people find it simpler, a lot of people see new complexity introduced because it has not been thought about and probably has not been designed—

Baroness Kingsmill: Because of the complexity of poverty itself or the causes of poverty.

Iain Porter: Because of some of the issues that fellow witnesses have talked about.

Lord Livingston of Parkhead: Dynamic reassessment, for example.

Iain Porter: Yes, there is the digital-first nature, but with dynamic assessment we come back to the rigid monthly assessment period and people being assessed and paid in arrears. Some very recent research that we have done in Northern Ireland, which will be published soon, shows lots of claimants talking about how they just cannot manage because their universal credit payment fluctuates all over the place as a result of the dynamic monthly assessment period.

If their earnings go up in one period, it results in a cut in their universal credit a month later, so there is a built-in lag, in that sense. Because of the rigid structure, their payments are all over the place. Claimants tell us all the time that they value predictability and certainty in payments, and that seems to be something that has got worse under the universal credit design. It is simplified in some ways but complex in others.

Baroness Kingsmill: I come back to my point about the complexity of the causes of poverty. Do you think that it has had an impact in increasing homelessness, for example, and does it subsidise poor employers? Are there unintended or, one might say, inevitable consequences of this kind of thing? What about the situation whereby food banks have become institutionalised and are not simply an act of charity but an institution? Those are unintended consequences, perhaps. I would like your opinion on that.

Iain Porter: Absolutely. I shall hand over to the other guys on homelessness and food banks. To finish off on what our destitution research has shown us, homelessness is one aspect. The delays in receiving benefits, such as the five-week minimum wait at the start, can push people into a cycle of debt. Claimants tell us that they are drawing down on their rent arrears to fund essentials that they need day to day to feed their family and heat their home, and that is backed up by broader evidence.

Baroness Kingsmill: Is there evidence that landlords are refusing to rent to people who are on universal credit?

Iain Porter: Indeed. That is something that landlords have told the National Audit Office. I am aware of a very recent study by Iain Hardie of the University of Glasgow, published a couple of weeks ago, that tried to look at that quantitatively across the UK. It found a statistically significant relationship between the rollout of universal credit in local authority areas and the increase in repossession orders from landlords, for example. We have tons, and colleagues here will have tons, of qualitative evidence from claimants that back that up.

Baroness Kingsmill: Does anybody else want to comment on that?

The Chair: I think we will move on.

Lord Tugendhat: I do not have a background in this subject. The five-week delay is obviously a big design fault. To what extent did the voluntary sector and those who work in the field and the think tanks warn government of this danger before it was implemented?

Dr Matthew Sowemimo: An original consultation in 2010 on the universal credit White Paper had 1,600 responses, and a major theme from consultees was that vulnerable claimants were not being taken into account in both the design of universal credit and its implementation. One area that was picked up was the waiting period; people could foresee that it was creating a potential poverty trap.

Q18 **Lord Livingston of Parkhead:** You have talked about the five-week period and the problems for people with mental health issues. Disabilities were also mentioned. Are there other groups that have been particularly disadvantaged as a result of the introduction of universal credit? I am thinking particularly of single parents.

Ignoring the transition period, is there any group for which you can say that it is working pretty well? I do not just mean that people are getting more money but that, for them, it is a better way. Or is it a problem for everyone?

Garry Lemon: An affected group that we have not mentioned is families with three or more children. That goes back to the point that universal credit interacts with other welfare reforms, such as the overall benefit cap and the two-child limit. Sorry, what was the second half of the question?

Lord Livingston of Parkhead: Is there anyone it has actually benefited? I do not necessarily mean in financial terms, although you can talk about that. Is there a group that you can say it works for, because they are on monthly wages? Maybe when it was designed, people were reflecting their personal experience. Is there a group for which you can say it is working, and really what we need to do is to concentrate on the groups it is not working for, by design or the level of income? Is there anyone for whom you can say it works, outside the transition period?

Garry Lemon: I work for a food bank charity, so I tend to see the people for whom it does not work.

Iain Porter: I think you have correctly identified a certain profile of person for whom it probably works okay. If your income does not fluctuate all over the place and if you are on a monthly pay cycle, you are going to do okay. However, it is not good enough to design a system for the wrong group.

Lord Livingston of Parkhead: No, but it helps to understand the nature of the flaws when you look at where it works and where it does not work.

Iain Porter: There are millions who will win and millions who will lose financially from the switch and the movement from legacy to universal credit. Generally, I welcome the fact that some of those at the highest risk of poverty will gain from the move; for example, working parents, and particularly people in working rented households, will do better financially. But it is not right that there are 3 million people in poverty who will lose out.

The Chair: The question we are aiming at is what proportion of people the system is working for and what proportion is suffering from it.

Dr Matthew Sowemimo: On the IFS figures, 4.6 million people lose £100 a year. To go back to the original question, a key group that the Salvation Army feels is not being sufficiently supported in the implementation of the system, particularly the digital-by-default aspect, is people with mental health conditions.

Garry Lemon: On the question about the proportion of people for whom it is not working, we undertook regression analysis, where we combined Trussell Trust food bank stats with ONS and DWP stats. We found that for every 100 people moved on to universal credit in a given area you could expect to see 27 extra food bank parcels in that same area. That might give you some indication of the level.

Lord Livingston of Parkhead: You no doubt communicate with people who do similar things in different countries. Forgetting how much money is put into the system, which is clearly going to be part of it, is there actually a system and a benefit design process anywhere that works and is not a bad model to take? Probably Scandinavia will be in the answer somewhere, but do you look around the world and see that somebody has done something like this and it works, and they have got over the

problems, or does it not work anywhere?

Dr Matthew Sowemimo: We can look a bit closer to home. In relation to the question of vulnerable claimants who need to be detected and supported, the key problem at the moment with the status quo is that work coaches, who are tremendously committed and skilled, have caseloads of up to 170 people. If you have 170 people in your caseload, you are not able to have more than 15 minutes with that person, check that they are genuinely seeking work and then send them on their way.

In the Salvation Army Employment Plus programme and others, there is good practice whereby an hour at least is set aside to assess people's support needs, and people's employment support needs, and therefore you can passport them to get support. When the Commons Work and Pensions Committee did its assessment, it identified that a key factor was work coaches having sufficient time to detect people who most need greater support, such as those with disabilities. We can look closer to home for our examples of best practice.

Q19 **Lord Stern of Brentford:** I want to focus on the poorest 10%; you may have read the evidence of witnesses in previous sessions who indicated that the poorest 10% have been hit the hardest, proportionally, by the change from the legacy system to this one. Is that evidence that you agree with? If you do, could you help us to understand the characteristics of the people and the system that combine to produce that result? You have emphasised between you, tellingly, the disabled and the mentally ill, and that is clearly an important factor. Can you look at the characteristics of who has been hit hardest among the poorest in terms of children, gender and family structure?

Iain Porter: I recognise the analysis of the bottom 10% being hit hardest. Probably the first thing to say about that is that there is one obvious reason why that is the case: universal credit as a whole now represents a cut in entitlements versus the legacy system, so you are taking money away overall from people on benefits. Obviously, social security tends to be claimed by the poorest in society, so it is an overall regressive move. That leads to one obvious thing that needs to be done, which is to invest more in universal credit, to try to live up to the potential that it first had, whereby it was going to be more generous than the legacy system.

There are key priority areas for investment, such as investing more in work allowances, to increase them, and reduce the taper rate. That would help to increase the gains from being able to work more for those on the lowest incomes and would help to protect some of the lowest earners from poverty.

Another key priority would be investing in the child element of universal credit, particularly as child poverty is a really unjust aspect of poverty and is expected to rise greatly over the next few years. One of the defining features of the last five years is that child poverty has increased so much. Working families with children have primarily driven the in-work

poverty increase that we have seen over the last few years, and single parents have done so as well.

Those are some of the key areas where we want to see more investment in universal credit to enable it to live up to its potential. On who faces some of the biggest losses—I reiterate it because it is really important—the disabled see some of the biggest losses in universal credit, and they are a group that should be protected. Our latest analysis showed that half of people in poverty are either disabled themselves or live in a family with a disabled person. That is not right and it is completely unacceptable in a society like ours; universal credit does not help by giving some of the largest losses to disabled people.

To go back to the children point, I would think a bit more about single parent families and parents in work. They are groups that universal credit has helped, in some senses. Single parents are forecast overall to lose out financially, but universal credit has increased the work incentives for that group, so it makes it a bit easier than the legacy system for single parents in work to increase their hours of work. However, they are still the group that faces some of the weakest work incentives of all groups, which means that the barriers people face, the restricted options faced by single parents and families with children generally, are still very high.

When we talk to claimants, it is actually some of the other barriers that they talk about that are the prime drivers or forces holding them back from moving out of poverty, and universal credit could be much more supportive of that. In some cases, it does not help. For example, universal credit is a bit more generous with childcare, for most people, but the limits on the childcare support available are still stuck at 2005 levels. In most areas of the country, that will not cover what you need to put your child in nursery. There are broader policy lessons for the childcare system, along with transport and skills, but universal credit should help rather than hinder, and at the moment it hinders a bit.

Lord Stern of Brentford: Before anyone else comes in, I want to emphasise that the first part of my question was empirical. Who is in that bottom 10% and what are their characteristics? That was the focus of my question. That is straight empirical. The second part is about what aspects of the new system have kicked in and how they have worked so that it is those who have suffered the most.

Dr Matthew Sowemimo: One specific group that has not been mentioned is people in precarious employment, such as zero hours. Of the 18 to 25 age group, 44% are believed to be in zero hours. Something that we have seen in the Salvation Army context is people coming to our corps for practical assistance, for food parcels and other things, who have employment. They are not completely economically inactive, but they do not know whether they are going to be working for two or three weeks and have that income coming in. They are the people called, increasingly, the precariat in our society.

As to what we can do about it, one thing we would advocate for the bottom 10% you referred to is that work coaches' caseloads not be more than 50 people. Work coaches are the gateway to support and employment. If the caseloads are contained at that level, you can have assessment of who needs support and passport them to that support. Precarious workers are a key group.

Garry Lemon: Your first question was about who they are empirically. With regard to food banks, it is a large number of people. Last year, in 2018-19, we distributed 1.6 million emergency food parcels; we estimate that they went to about 600,000 or 700,000 people. About 500,000 of those parcels went to children. We know that 86% of households referred to food banks are meant to be supported by our benefits system; they are not in work. Their average incomes are extremely low; after housing costs, average weekly equivalised income is just £50.

I welcome the focus on looking at the bottom 10%, because that is where the challenges are. As for how best to help the groups of people at the very bottom, we have spoken about it many times; it is about having a look at the five-week wait for universal credit, ending it, and turning the first advance into a grant. When you are very poor and already in debt, and you sign on, you are left with a terrible choice: do you take the advance but then see that money clawed back out of further payments that were never meant to be generous in the first place and have seen cuts, or do you try to bridge the five-week wait? The number one thing is to end that.

Number two is universal support. As has been mentioned, groups of the poorest, who face more challenges, can struggle with the digital-first nature of the system. Universal support was touted as something that would help people through the system. We welcome the fact that some money was given to Citizens Advice to help to facilitate universal support and hold people's hands through the process when they need it. We need to make sure that more people are able to access that rather than being given a food bank voucher.

Thirdly, we have not touched much on deductions from people's payments. Whereas a private sector lender would be asked to conduct an affordability assessment before lending people money, the DWP does not have to do that before it offers somebody an advance. Almost a third of people subject to a deduction have a deduction of more than 30% from payments of universal credit. We put in some PQs and found that in February 2019 there were 30,000 claimants with a deduction of more than 40% from their payments.

People on universal credit can have multiple deductions from their universal credit payment, which can be from government or third-party debts. As of May 2019, 440,000 claimants, or 52% of universal credit claimants who were paid an advance, were also paying off another government debt. That was often a tax credit debt or repayment being clawed back from an already very low amount of money. We would like to

see the Government held to the same standards as a private sector lender and do proper affordability assessments beforehand.

Lord Stern of Brentford: None of you has mentioned gender or family structure in the empirical side of your answer.

Garry Lemon: We see a large number of single parents, overwhelmingly single mothers. For women left looking after a family, the universal credit system can be more challenging.

Q20 **Baroness Bowles of Berkhamsted:** We have already touched on the fact that there was the slogan "Make work pay", or whatever it was. Was universal credit really designed to tackle in-work poverty?

Iain Porter: That sits with what I said before; it was not specifically designed to tackle poverty, which is one of the problems that has allowed problematic policy changes to happen. It is true that the biggest focus was on making work pay, primarily through changing the financial incentive structures in universal credit, and to a large degree that has been helpful. Universal credit reduces some of the highest effective marginal tax rates to people. I am sure you will have heard of the high rates, up to 96%, that people would have faced before, but it still increases the number of people who face high effective marginal tax rates of 60% to 80%.

On paper, universal credit has improved work incentives overall. Is there any empirical evidence for whether that is translating in practice to actually helping more people into work? The evidence on that is questionable; it is very limited. Some early work from the DWP showed a very small increase for people going from being out of employment into employment. The sample was unrepresentative of the final caseload of universal credit; it was the simplest, easiest cases of single unemployed people with no dependants. The department has done trials on in-work support and conditionality, and, again, a very small increase in earnings is shown. The cost-benefit analysis of that showed that there was no statistically significant difference from break-even, for the in-work conditionality elements.

That is backed up by all the qualitative research that we have done over the years with universal credit claimants, particularly parents with children. When we ask them whether it has helped them into work, the answer is, "Not particularly". They talk about some of the bigger barriers and restrictions they face, such as the fact that they cannot progress in their job because there is no access to skills and training or that good-quality jobs are not available in the local area that provide the kind of flexibility that particularly parents need. If you are caring for a young child, you need a job with some sort of flexibility that allows you to mix caring with going to that job, and/or you need good-quality childcare. Those kinds of barriers make things difficult, and they are probably the primary factors holding back, in particular single parents and parents with children who are working, from increasing their earnings.

Having said that, we have done studies where we ask claimants whether they think certain changes to universal credit would help. There is definitely support for things such as substantially increasing work allowances, which claimants have told us would help, and reducing the taper rate. People talk about a fair rate being more like 50% rather than the current 63%. There has to be a focus on the other barriers that exist. Probably the prime barriers for people in local labour markets are inflexible childcare, unaffordable transport and that kind of thing.

Universal credit can go with the grain and help, or it can hinder; in many cases it does not do enough to help, and in some cases it actively makes things worse. For example, a lot of the parents we spoke to have problems caused by the up-front payment of childcare that is required under universal credit, which is different. You are required to fund all your childcare up front and then claim it back a month later, which people in those circumstances cannot afford to do. That is a real barrier and another design fault in the system that needs to be fixed.

Baroness Bowles of Berkhamsted: Can I touch on something we have already gone to? I suppose it affects the precariat in particular. They get more work and then have deductions, and there is the phasing element of that. Does it work symmetrically? If you added up their income for the year and chopped it up, would it be level, or have they lost out because of the clustering effect of earnings?

Iain Porter: To answer briefly, yes, many people will lose out, because work allowances, for example, are monthly. If you have an income that goes up and down a lot, in some months you will be able to make full use of the work allowance, which allows you to keep more of your earnings, but in other months you may not earn anything, so you cannot use the benefit of the work allowance. Even though you are on exactly the same annual earnings, the fact that you are on fluctuating earnings that go up and down means that you will receive less universal credit over the year.

Dr Matthew Sowemimo: To return to your original question, we say it is case unproven on in-work poverty. The 2015 Department for Work and Pensions study looked at those who were closest to the labour market, and it is very difficult to interpret things from that. On the question of in-work poverty, Iain's organisation identified that 1.8 million working families lost out due to the reduction in work allowances in the 2015 Budget.

Baroness Bowles of Berkhamsted: To what extent does the cost of housing influence these things? Is it a greater influence than universal credit? How do those elements stack up?

Iain Porter: We have done some very recent research on that, looking into the drivers of in-work poverty, which is the problem of our times. We have had record employment and we have had rising earnings, but in recent years the high cost of housing and the cuts to the social security system generally have acted in the opposite direction and pulled people into poverty.

There are two periods I would look at. In the early part of this century, up to 2010, the high and growing cost of housing was probably the bigger factor. To identify exactly what the mechanism is, it is not just that housing costs are going up for everyone; it is the fact that at the top end housing costs have not really risen, but for those on the lowest incomes housing costs have rocketed. For those on the lowest incomes, housing costs have gone up 50% over the last 20 years, whereas they have hardly risen at all for those at the higher end of the income spectrum. To come to the more recent period, from 2010, the impact of cuts to the social security system is definitely much higher and equal to, if possibly not more important than, the housing cost element.

To go back to what I said at the start, cuts to social security that affect both universal credit and the legacy system, to be fair, have made universal credit's job much harder, and have contributed to pulling people into poverty.

Lord Skidelsky: You talked about the financial incentives to work and how they have improved, but then you said that the outcome has either been very small or nugatory. The outcome depends not just on financial incentives to work; it depends on the state of the labour market. How do you factor into your research fluctuations in the demand for labour, vacancies and things like that? You need to do that to get a counterfactual, at any rate. Do you try to do that?

Iain Porter: Absolutely. That is probably why the evidence is fairly limited and scant; it is quite difficult to do that kind of robust study. At Joseph Rowntree, we have drawn primarily on qualitative studies with lots of claimants to try to answer the evidence gap, and quite a few people tell us that they feel it is a bit easier on universal credit to earn a bit more. Most of the other factors are to do with a difficult labour market, the fact that we do not have good-enough-quality jobs that pay well enough or are flexible enough and barriers such as childcare and transport costs. Those are more important. I agree that it is a very difficult question empirically, in the quantitative sense, which is probably why there is such limited evidence, and the DWP has not been able to prove any material effect as a result.

Q21 **Lord Fox:** You have come up with some very useful statistics and empirical information. I have not had the chance to read the late papers that came in, but if that is not included in that submission, can you please submit it? It would also be helpful to get the Heriot-Watt data. We understand the anecdotal evidence on the effect of poverty on physical and mental health, but can you point to more empirical evidence on how poverty can or does affect people's physical and mental health?

Dr Matthew Sowemimo: We are speaking just a week away from the Marmot review. Sir Michael Marmot's review of the social determinants of health talks about living in overcrowded housing and existing on low and fluctuating pay. It is empirically documented that poverty, particularly in childhood, has adverse long-term outcomes in adults. Specifically, empirical evidence exists in relation to greater risk of having a stroke,

lung disease and stomach cancer. Why is that? The key thing is that the cost of eating healthier foods, with higher energies, is three times more, so there is well-documented data.

More recently, some of you may have seen the *Lancet* study that was produced last week, which specifically controlled and compared the psychological health of people who are unemployed on universal credit with those not on UC. It showed that for the unemployed group there was a 6% increase in their psychological distress, and that is from using a well-validated and well-recognised medical measure. The evidence is mounting up on the link between poor health and economic and longer-term outcomes.

Baroness Kingsmill: And life expectancy, of course.

Dr Matthew Sowemimo: Yes, which is now frozen. For the first time, it is not increasing.

Baroness Bowles of Berkhamsted: Is that due to uncertainty? Could the deterioration be put down to a particular thing around universal credit, such as the uncertainty of the payments and the fact that they vary? I suppose if people are not in work it does not vary so much. What is the driver?

Dr Matthew Sowemimo: The Marmot review renewal did not look at universal credit in isolation. He identified as the biggest drivers the public spending reduction since 2010, for example, and things such as the closure of children's centres. He did not seek to detach universal credit itself, but, as I think we have all said on this panel, the key thing in the design feature is the delay for people at a time when they may have pre-existing debts and no savings.

Garry Lemon: I absolutely take on board the request for empirical evidence, but it is important to have the qualitative alongside the quantitative.

Lord Fox: I understand that.

Garry Lemon: Perhaps I may quote somebody we interviewed at a food bank who is dealing with these issues. He was diagnosed with fibromyalgia and had to leave his job, as his condition had worsened. He struggled to pay rent during the five-week wait, and he said, "The stress of the financial problems was the last thing I needed, as I'm not supposed to get stressed with the fibro as it causes massive flare-ups, and with every flare-up my health gets permanently worse. I had four massive flare-ups as a result of universal credit. As a result, I am now unable to walk without crutches and everything is 10 times harder and more painful for me. This would have eventually happened, but possibly not for many years".

Q22 **Lord Tugendhat:** Mr Lemon, your organisation is very much into food banks. Are you certain that the increased use of food banks is at least partly the result of universal credit, or would you say that there was a

broad range of factors and that it was only one?

Garry Lemon: I am certain that universal credit is in part responsible for the increase in demand for food banks.

The Chair: Is there evidence of how much?

Garry Lemon: We talked about the regression analysis undertaken by the *State of Hunger* study. Heriot-Watt University undertakes research for the JRF, Crisis, the state of hunger project and destitution research. It is one of the most respected research organisations in the field. As part of that research, they interviewed 1,000 people at food banks and looked at DWP and ONS figures.

In the conclusion, to quote the academics rather than myself, they say that, "it was equally clear that drops or gaps in income were frequently designed into the benefit system: the five week wait for the first Universal Credit payment, benefit sanctions, changes to eligibility for health-related benefits, the benefit cap, 'bedroom tax' and, last but not least, the rules around how much benefit could be deducted to repay debts or advances. Statistical modelling of the changes in food parcel demand showed clear and robust evidence that the extent and timing of five key benefit changes (sanctions, Universal Credit, 'bedroom tax', benefit levels, Personal Independent Payment assessments) had sizeable and significant effects, confirming the findings from the surveys of people".

If it is good enough for the academics at Heriot-Watt, it is good enough for me.

Lord Tugendhat: Why do you think that children in Asian households, especially Bangladeshi and Pakistani, are so much more likely to be dependent on food banks than other people?

Garry Lemon: I do not think that is evidence from us. The state of hunger research showed a fairly even spread of ethnicities, in both the general population and the population of people at food banks.

Q23 **Baroness Kingsmill:** I want to go back poverty and mental health illness. We are looking at universal credit and trying to figure out whether there is a causal effect. Obviously, people with poor mental health and who are unwell may very well be poorer, with or without benefits, than people who have good mental health and who are healthy. Does universal credit cause the mental health and ill health difficulties, or are they existing and, therefore, people are more likely to be in poverty? Do you see what I mean? It is just to get the causal effect straight.

Iain Porter: On the broader evidence of the effects of poverty on mental health, there are a range of studies that show causality. Living in poverty is an extremely stressful experience; you are living day to day and juggling lots of things, going short on essentials, and there is a lot of anxiety about how you are going to get through.

On universal credit specifically, as has been highlighted, there are now more quantitative studies that show a definite link between universal credit rolling out and increases in the prevalence of mental health issues, such as the *Lancet* study last week, which is very robust. It is difficult, and I am pretty sure that the authors of that study would not say that they could identify causality.

A simple way of determining what is driving or causing something is to talk to the people who are affected and listen to them. That is why it is important. A very strong common theme across lots of qualitative studies that we and others have done is that people say that this or that feature of universal credit caused something. I have a quote here from someone saying, "That waiting period sent me to the doctor's".

Baroness Kingsmill: You understand why we are asking. We are an Economic Affairs Committee, and we are looking at the economic consequences of universal credit; that is why we are trying to punch it down. Has universal credit increased the cost to society, if you like, because it has caused an increase in poor mental health and ill health? Has it had a causal effect? If there has been an increase in the cost to society, that would suggest that it was a definite failure. Aside from any of the unhappiness, discomfort or unpleasantness that it might have caused, has it had an economic disbenefit?

Dr Matthew Sowemimo: Causally, notwithstanding the *Lancet* study, I think that has yet to be demonstrated. From the evidence we see from people coming to our food banks, it aggravates people's emotional and mental stress. People say specifically that when you are filling in a detailed form online, and you are an older person with less familiarity with computers and your livelihood is on the line, it aggravates your existing emotional stress.

The Chair: Let us have one final question, because we must wrap this up.

Q24 **Lord Skidelsky:** Let us look at housing benefit, when people find that they cannot afford to pay rent. Would it not be better to build a lot more social housing? One of the problems is considering this in isolation from anything else; it has to be an element in a whole raft of policies. Surely, social housing would be a very important contribution. What is your view on that?

Dr Matthew Sowemimo: First of all, the most recent figures, in 2018, are that, of newly built homes, 82% were built by private enterprise and only 2% were built by local authorities. As a society, we are not building sufficient homes for social let. The knock-on consequence of that is more people crowded into the private rental sector, pushing up rents.

As Iain has already said, it is not just the crowding-out effect; in 2011, the local housing allowance was changed, which meant that, rather than being able to afford, through housing benefit, the bottom 50% of properties, people could afford only the bottom third. That was the key

moment when the biggest reason for people becoming homeless in England was no longer relationship breakdown but the end of a private sector tenancy contract.

There is a relationship between the lack of homes for social let that have been built and the broader challenges around homelessness. We have to fix both. In the here and now, we have to fix the high costs of renting, but we also have to fix the medium-term problem of building enough homes for social let.

The Chair: Thank you very much and thank you all for coming. As I said at the outset, we are very much interested in the design of this and trying to identify faults and what can possibly be done to correct them. If you have any further thoughts, we would be very happy to hear from you. Thank you very much for coming this afternoon.