PEABODY – WRITTEN EVIDENCE (EUC0091)

The economics of Universal Credit

About Peabody

Peabody is one of the oldest and largest housing associations in London and the Southeast, established in 1862 by the philanthropist, George Peabody. In total, we provide quality homes and support services to over 150,000 people. Our mission is to help people make the most of their lives. We do this by providing good quality affordable homes, working with communities, and promoting wellbeing.

Response Summary

Peabody has over 7,300 tenants on Universal Credit. Our team of financial inclusion specialists, who work directly with claimants, have fed into this response. We know from working with tenants, staff and our own research that Universal Credit (UC) is falling significantly short of its original objectives.

One of UC's roles is to protect people from hardship. However, we know of numerous tenants who have found themselves worse off than they were under the legacy system. For many, their award entitlement doesn't give them what they need, and any advance loans simply paper over the cracks.

Many are also in unnecessary and substantial hardship. We know for some when their loan repayments or other clawbacks are accounted for, they find their Universal Credit is too low for them to afford basic necessities. Of particular concern are the experiences of some of the most vulnerable households who live with long-term health conditions and disabilities that mean they will never be able to work.

Universal Credit is also supposed to more easily adjust payment amounts as people come into work, aiming to ease people into work that pays. However our experience is that the current system of bringing people onto Universal Credit is flawed and increases the risk of debt and hardship. The world of work is also evolving at a faster pace with low-paid insecure jobs becoming easily available. Our latest Peabody Index research (March 2020) has found that 28% of our working tenants are on zero- and minimum-hours contracts and one in five are in jobs paying minimum wage or below. For UC claimants in these jobs, overpayments and subsequent clawbacks create an unstable system that prevents claimants from being able to plan for the future.

In our latest research we have found that finding work that pays enough is particularly difficult for parents of young children. They are often faced with a difficult tension between costs and flexibility of childcare and employment. Only 8% told us their employers offered flexible working options. Additionally, they are 1.5 times more likely to be on zero-hours contracts than those without children.

For UC to better meet its stated aims there must be reform to reduce the five-week waiting period and a re-evaluation of award entitlement and deductions to ensure people can get by, rather than using loans as a stopgap measure that results in unnecessary debt.

Question 1: How well has Universal Credit met its original objectives?

- Encourage people into work, making small amounts of work pay.

Our employees who work directly to support Universal Credit claimants through our financial inclusion services have expressed that in their experience UC has resulted in more tenant's working. However, this increase has been mostly in low-quality and precarious jobs. Our financial inclusion team have said some claimants have been pushed to take up ill-fitting work due to the threat of sanctions.

Our ongoing research publication, the Peabody Index, tracks experiences of working Londoners. Our latest survey from January 2020 indicates that 28% of our working tenants are on insecure zero- or minimum-hours contracts. For those claiming UC, this rises to 46% according to our survey in 2019. These contracts are defined by unstable pay and working hours, further impacting on variable swings in UC overpayments and clawbacks. This low pay is coupled with negative financial experiences, with 35% of our tenants feeling worse off financially than last year. Among those in zero- and minimum-hours jobs, this rises to 37%.

- Smooth the transition into work by offering a single benefit that removes the distinction between being in and out of work.

We know that many tenants have found their UC payments to be erratic and unpredictable, making it difficult to plan their expenses around them. The taper in particular offers questionable incentive to move into work. Originally, the taper was more generous and allowed people to keep more of their earnings. Currently, it threatens claimants financial stability particularly for those in lower incomes.

Instead of removing the distinction between being in and out of work, Universal Credit was removed the last-resort safety net that provided stability to our tenants.

We are particularly concerned about the challenges faced by those with children. Our latest survey of parents of young children showed that 11% of those using government help used UC payments to help pay for childcare. However, it can be incredibly difficult to transition into work for those without the money to pay for

> *"…I found out that Universal Credit doesn't cover much more than two days' childcare a week… Universal Credit doesn't cover the cost of a full third day, so it limits me to either working a two-day week or finding an impossible extra £250 myself each month for childcare…it was tough to find the upfront childcare costs before getting it back from Universal Credit…I never had any of these stresses when I was getting working tax credit."*

childcare fees paid upfront. We spoke with a tenant who told us:

- Offer a simpler support, with one system replacing multiple systems, therefore reducing administration costs and the propensity for fraud and error.

Despite policy concessions to improve the system, Peabody residents still experience substantial challenges when transitioning onto Universal Credit. Hardship among our tenants results in spikes in arrears and those most vulnerable going without essentials like food or heating. Our research has showed that fourteen percent of our respondents have visited a foodbank since claiming Universal Credit. Payments have sometimes become more complex with alternative payment arrangements to the landlord often paid long after the payment to the tenant. Those with health issues and limited internet literacy struggle even more to make sense of the system of payments and advances.

- Tackle poverty both through increased take-up since the system will be simpler and from increased reward from employment for the customer.

We have not seen our tenants coming out of poverty after coming onto UC. Rather, our 2019 research found that rental arrears spike by 28% on average. Additionally, 45% of our tenants claiming UC hold other forms of debt, including debt on utilities, credit cards, council tax and hardship loans.

Question 2: Were the original objectives and assumptions the right ones? How should they change?

While the UC objectives were sensible, two of the main underlying assumptions have unintended negative consequences. Firstly, the assumption of a single "world of work" does not apply to many of our tenants. Many low-income roles are not paid monthly. Zero-hours, shift work and on-call contracts, accounting for 33% of our working tenants, are often paid weekly or twice per month. Insecure work makes UC payments fluctuate month by month creating cycles of instability for our most vulnerable tenants.

Secondly, the original objective of making benefits simpler by replacing multiple systems has an unintended consequence of putting off would-be claimants to a single benefit. Also, the online application system has become a barrier for many claimants with limited digital skills, language barriers and physical and mental health conditions. Vulnerable tenants are in fact the most at risk of being penalised for petty infractions brought about by system design and failure of the DWP to properly support claims.

For instance, one of our tenants struggles to read and write, has no internet access and is unable to physically get to the jobcentre due to her severe disabilities. Unfortunately, the DWP Home Visiting Team only get involved in cases once a claim has been made. This led to several problems. By the time our tenant managed to have their claim set up and started receiving her payments four months after starting her tenancy, her rent arrears were already above £2,000. Our tenant has now a monthly deduction from her UC for her rent arrears. Financially, this tenant has also lost out receiving £42.34 a week less than she was claiming in Employment Support Allowance.

Question 3: What have been the positive and negative economic effects of Universal Credit?

UC has impacted negatively on our tenants' finances. Our recently published report detailed how the 5-week waiting period puts tenants into elevated arrears that do not decline in the medium-term. In fact, 76% of claimants on Universal Credit are behind on their rent payments, owing on average £1,350 each. Over 200 of our tenants who claim UC are in extremely high arrears of £5,000+. They are almost 5 times as likely to be in this position as our social rent population as a whole.

Question 4: Which claimants have benefited most from the Universal Credit reforms and which have lost out?

Working households with stable incomes are the most likely to benefit from UC. Those with unstable zero- or minimum-hours contracts are more likely to lose out. For instance, a client in low-paid fluctuating work made a number of claims for UC and was unable to do the identity part of the claim online so her claims were cancelled. She did not know that she could make an appointment at the jobcentre to check her identity documents and so lost out on months of Universal Credit. This is because it was not explained to her that she could verify her identity both online and in person, not just the former online. This particular case highlights language and benefit awareness issues.

Question 5: 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?

Low-paid work is very common for our tenants. However, this type of work is particularly precarious and the income resulting from it fluctuates considerably from week to week depending on an individual's capacity to work. For example, we are working with a client whose earnings change from week to week depending on the hours that she works as a paid carer. She does not know until seven days before her Universal Credit payment how much she will get to live on until her next monthly payment or how much she will receive for housing costs. As a result, UC deepens the instability inherently associated with low-paid work.

Usually, financial Inclusion officers are able to estimate UC payments by doing a calculation so we can advise people how much to expect although. However, our calculations will not show deductions for rent arrears, benefit advances and other deductions. Trying to inform someone how much UC they will actually receive is a challenging task that makes financial planning almost impossible. All it might take is one financial crisis to put this client into destitution as she has no savings or access to other means.

Question 6: If Universal Credit does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?

Currently, UC doesn't provide enough stability for low-paid workers and those in more vulnerable situations. The application process is cumbersome requiring waiting times and advances that can be difficult to repay. We propose:

- A reduction in the waiting period from five weeks to two and a comprehensive review of payment levels and deductions practices with the objective of reducing the need for advancements and loans.
- A review of administration and communication to ensure that UC claimants can have a predictable monthly payment that provides a stable foundation for getting people into work.
- Promotion of weekly and alternative payments arrangements to enable people to manage their finances more effectively.
- DWP should provide estimates on how much a claimant may get depending on their circumstances and any known deductions.

5 March 2020