THE WOMEN'S ORGANISATION – WRITTEN EVIDENCE (EUC0092)

The economics of Universal Credit

Evidence drawn from individual claimant testimony, Liverpool City Council, Liverpool Combined Authority and research organisations highlights the negative economic and social impact that UC is having on people's lives. According to the report by Liverpool City Council, 'Universal Credit is harming the very people it was designed to support. It is forcing households into debt, causing severe poverty including to those in work, leaving too many people, including children, facing food insecurity, destitution and eviction".[1] Households are often affected by not only the effects of UC but also the 'bedroom tax' (under-occupation penalty), reductions in help with council tax and the benefit freeze. There are around 7000 households in Liverpool that are affected by all these reforms.[2] The economic, social and health impact of UC are far reaching for many vulnerable groups in society. These include those; entering the labour market, in low income employment and who deal with the undulating nature of income from self-employment.

Delays in the first payment creates a real economic hardship for claimants and results in other social and economic costs, including mental ill health and indebtedness. Falling into rent arrears was the only way to have payments made direct to landlords despite UC claimants finding it the best way to manage their fragile economic circumstances.

There is evidence locally in Liverpool City Region that families are still not encouraged to claim the UC support to which they are entitled. This is having a negative economic impact on groups mainly made up of women, single people, in-work couples and coupled parents.

There is also evidence that UC's has a negative effect on incomes compared to the legacy benefits system, and that more families will lose from the switch to UC and fewer gain. In LCR, 52 per cent of benefit-recipient families lose out from the switch to UC, while only 32 per cent gain. The respective figures for the UK as a whole are 46 per cent and 39 per cent. This means that the gap between the proportion of families

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[1] Liverpool City Council, *'Universal Credit – Unintended Consequences'*, 2018, p. 4

[2] *Ibid*

losing and the proportion of families gaining (20 percentage points) in LCR is almost three time as large as that gap in the UK (7 percentage points).[3]

Average gains among families that gain – £61 per week in the UK and £54 per week in LCR – are higher than average losses among families that lose out – £50 per week in the UK and £47 per week in LCR. Overall, benefit-recipient families across the UK are on average £1 better off per week as a result of the switch to UC compared to the legacy benefits system. In LCR, however, they are on average £7 per week worse off.[4]

UC has created several areas where claimants have been economically and socially disadvantaged including those seeking to become self-employed. UC poses a very real barrier to those who depend on benefits and wish to become self-employed to launch their own start-up business – delayed payments, burdensome administration to report monthly earning when trying to get the business off the ground. In practice, the barriers to becoming self-employed while being dependant on Universal Credit are too high. With newly self-employed being subject to an assumed 'minimum income floor' (MIF) and an assumption that self-employed people are earning at least full-time minimum wage, mean they are therefore not eligible for Universal Credit. All the latter pose major issues at start-up level. The Resolution Foundation research shows that the MIF operating on a monthly basis hinders the income of those in self-employment due to the nature of earnings.[5]

While in theory the guidelines in place should mean that new businesses are given twelve months grace, allowing for an income floor to be calculated on a case-by-case basis and depending on an individual's actual earnings, our conversations with colleagues and clients at the Department for Work and Pensions reveal that this is not happening in practice. Self-employment carries with it peaks and troughs in terms of cashflow. Those taking the initiative to try and create their own job and income (not forgetting jobs for others) should not be penalised for this. They must be allowed to declare their income and have UC track along with them in the same way it would if they were employed with no cut off into assumed income.

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[3] David Finch and Laura Gardiner, *'The long and winding road: The introduction and impact of Universal Credit in Liverpool City Region and the UK',* January 2020, p.7

[4] *Ibid*, p.8

[5] David Finch and Laura Gardiner, *'The long and winding road: The introduction and impact of Universal Credit in Liverpool City Region and the UK',* January 2020, p.44

Our programme (the Enterprise Hub) has helped over 850 business to start over the past 24 months and over half of these were set up by individuals who were either unemployed or economically inactive - these are the very people who would have stood to be affected by the roll out of UC if it have been introduced when they were in the first stages of starting up. This could have acted as a deterrent for fear of losing this important safety net, and risks doing so in the future if the Government do not put systems in place to encourage entrepreneurship to thrive.

Another critical element to UC will be the one payment per household system. This presents an even greater threat to vulnerable women who may be at risk of domestic abuse. This system would create a very real danger which perpetuates control and may compound domestic abuse. Financial control is critical for women and their children to be protected in these situations where gambling problems or abuse might be present. Women have fought for decades to have independent means and this needs to extend to the payment of Universal Credit, otherwise it will put the most vulnerable at risk.

Further to this, previous analysis has identified that Government welfare reforms disproportionately impacts upon disabled people, people with children, young people and those living in social housing on a national level.[6] Within Liverpool, breaking down these statistics on a local level illustrates it disproportionately affected women. As women comprise 60% of working age Council Tax Claimants and 65% of those dealing with the under-occupation penalty are women. In addition to this, women are the primary group affected by the; Reduced Benefit Cap (November 2016-Janaury 2017), freeze on Child Benefits and restrictions on child allowances for 2 children in Universal Credit/Tax Credits/Housing Benefits, due to making up the bulk of lone parents.[7]

In order for UC to work, we need to ensure a more realistic system is in place to prevent vulnerable people being victimised by a system designed to support them. As the Resolution Foundation states, the fault lies in 'swiftly imposing far-reaching changes on some of the most vulnerable people in society'[8] The last eight years have seen successive Governments implementing major changes to the welfare system in an attempt to reduce the 'benefit bill', but at what cost to people's lives? 7 million

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[6] Sarah Foster and Tony Wilson, *The local impacts of welfare reform: A review of the impacts of welfare changes on people, communities and services*, October 2017, p. 26
[7] Liverpool City Council, *Welfare Reform Cumulative Impact Analysis 2016*, February 2017, p. 7
[8] David Finch and Laura Gardiner, *'The long and winding road: The introduction and impact of Universal Credit in Liverpool City Region and the UK',* January 2020, p.5

households nationally will be affected by the UC reforms[9]. What this doesn't capture is the qualitative data behind it. The broader impacts of 'consequential financial hardship upon health, homelessness, debt and child development cannot be easily understood' through statistics.[10]

References

The local impacts of welfare reform: A review of the impacts of welfare changes on people, communities and services, Sarah Foster and Tony Wilson, October 2017.

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[9] Liverpool City Council, *'Universal Credit – Unintended Consequences'*, 2018, p. 4
[10] *Ibid*