RADIAN – WRITTEN EVIDENCE (EUC0093)

The economics of Universal Credit

Radian is a Registered social landlord. This response is being submitted by its team of benefits advisors who work directly with Universal Credit claimants.

The original objectives of Universal Credit (UC) are laudable, and most people would agree that the legacy system wasn't perfect. However, what was meant to simplify the benefits system has created some of the most complex rules around the transition on or off UC. It is also clear that those disadvantaged by UC are some of the most vulnerable in our society including single parents, people with disabilities and pensioners in mixed age relationships (where one is pension age and the other member of the couple is still or working age) and therefore increasing poverty in these groups.

Certain groups of people have benefited from UC. Families with children in regular paid employment quite often find they are better off under Universal Credit. The brunt of the savings to the overall benefit bill have fallen on those who can least afford it. For example:

- **Lone parents under 25**
  A lone parent on legacy benefits would be entitled to £73.10 income support per week. The same parent who must make a claim for UC is only entitled to the equivalent of £58.10 standard allowance leaving them £780 worse off per year. No reason has been put forward for this change other than administrative simplicity (treating all under 25s the same) which doesn't seem to be a reason to discriminate against this group of people.

- **Women in receipt of Maternity Allowance (MA) rather than Statutory Maternity Pay (SMP)**
  Within UC, MA is treated as unearned income and deducted pound for pound from the UC award, leaving them no better off than if they hadn't claimed MA. SMP is treated as income and subject to the 63% taper.
  Although MA and SMP are paid for the same purpose and paid at the same levels, MA can be paid for arbitrary reasons. For example, someone who has had to change jobs whilst pregnant and hasn't worked long enough to qualify for SMP. It also affects those on zero-hour contracts, agency work or self-employed women.

  In one example we came across a single mother is £419.19 per month worse off because she wasn't entitled to SMP from her employer due to not working for them long enough after being made redundant from her previous job.

  MA is also treated differently in UC than legacy benefits. In the same example she would have been better off by £217 per month on legacy benefits than UC.

- **Mixed age couples**
  'Mixed age couples' is a DWP term for a couple where one is of pension age and the other is still of working age. Since 15th May 2019 legislation changes mean these couples are no longer able to make new claims for pension credit or housing benefit and are required to claim UC instead leaving them significantly worse off.

  For example, a couple we are working with, living in a two-bed sheltered accommodation flat where the eldest member reached pension age in November

2019. Under legacy benefits would have been in entitled to Pension Credit, State Retirement pension and full housing benefit. This would leave £1,110 per month disposable income after their rent was paid.

Under the new UC rules they are still entitled to the State Retirement Pension but this is deducted pound for pound from the UC award. They would also still be subject to the bedroom tax. This leaves a disposable income of £421.27 after the rent is paid, meaning they are worse off by £679 per month.

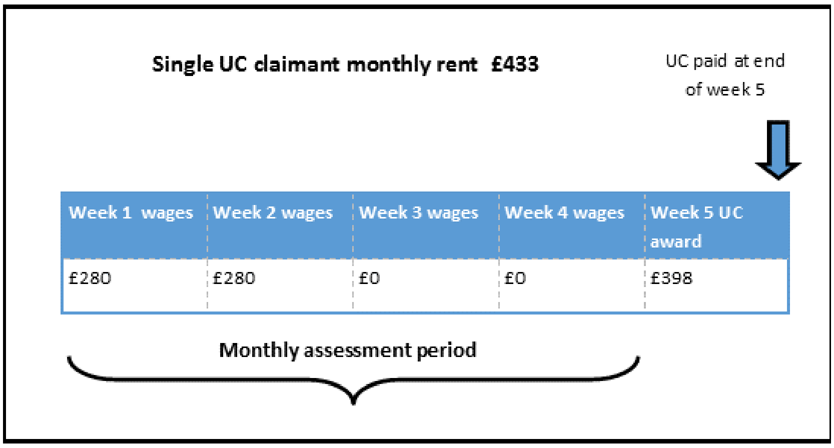
- **People in receipt of the Disability Premium**
  Although there is now protection in place for people on the Severe Disability Premium no such protection exists for other disability premiums. One couple we are helping has been left £48.95 per week (£2,545 annually) worse off after being told to claim UC incorrectly by the Jobcentre. This is due to losing the Disability Premium paid within their JSA, the equivalent payment does not exist in UC and the couple were not covered by transitional protection.

The design of Universal Credit assumes that all workers are paid calendar monthly. In our experience a large proportion of low paid jobs are paid either weekly or 4-weekly. The DWP are already aware how different pay cycles effects UC, however the result of this in the real world is increased rent arrears and missed bills associated with a reduction in their UC award.

UC is also problematic to claimants on zero-hour contracts or agency work. UC was designed to make the transition in and out of work easier. If a claimant has a 'good month' and their earnings reduce the UC entitlement to zero the UC claim is closed. Failure to re-open the claim means if income drops the claimants income won't be assessed and a UC award won't be generated. This has resulted in customers losing out because they haven't been aware the claim has closed and not re-opened the claim in time.

Under the old 'Live service' Universal Credit a claim was kept open unless 6 months consecutive nil entitlements were generated. This was a seamless transition and lessened the burden on the claimant and has been a backwards step in the design of UC.

Zero-hour contracts and agency work have an inherent volatility in the income received. We have come across many instances of customers struggling to budget when wages earnt at the start of an assessment period reduces the UC award received three or four weeks later. Claimants are left without enough UC to pay the rent. Rent arrears and the threat of eviction are higher amongst this group of people because they are unsure how much to pay towards the rent when they are paid, against how much UC they can expect.



UC award does not cover 1 months' rent. The only way to get over this is do a complex estimate of their UC award every week they work so they know how much of their wages should be paid towards the rent.

The original aim of UC was to make sure all work, even a small amount, pays. The work allowance went a long way to achieving this. Although some of this has been redressed with the increase in work allowances in the 2018 budget, it only did so for claimants with children. Originally UC had a work allowance of at least £111 for all claimants. This helped address some of the instability outlined above and has been one of the biggest casualties of fiscal retrenchment. Reducing the ability of UC to meet its aim of tackling poverty through increased reward from employment.

The level of deductions taken from a claimant's Universal Credit is a driver into poverty for a lot of claimants. Although the deductions have been reduced to 30% of the standard allowance, exceptions are still in place for rent arrears which means the maximum is still 40%. Even at 30% we are regularly seeing people having to live off £222 per month (£51 weekly) after deductions. Many people are paying back high advance payment loans taken out because of the enforced wait of 5 weeks for the first UC payment, or Tax Credits overpayments from ten or more years ago.

Extending the loan repayment period would help. Reducing the overall level of deductions to a more sustainable level would make a big difference to alleviating the poverty experienced by claimants. Reducing the level at which individual debts are deducted at would also help. For example, benefit overpayments are deducted at 15% of the standard allowance, or 25% where someone is working. For a single person over 25 that is £47 per month or £79 if working. Similarly, with rent arrears it is a minimum of 10% deducted from the personal allowance up to 20%. We accept the need to recover rent arrears from ongoing benefit awards, but more flexibility should be offered in the levels deducted.

Recommendations:

- Bring forward the loan repayment extension scheduled for 2021 and extend the repayment period to 24 months.
- Reduce the overall level of deductions and offer more flexibility around the levels that individual deductions are made.
- Treat pension income the same as earned income so it is not deducted pound for pound.
- Treat Maternity Allowance the same as SMP.
- Increase the personal allowance for single parents under 25.
- Add in more flexibility in assessments for workers who are paid other than calendar monthly.
- Reintroduce the work allowance for all claimants.

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