CLLR. JANE CORBETT, LIVERPOOL CITY COUNCIL – WRITTEN EVIDENCE (EUC0095)

The economics of Universal Credit

As Assistant Mayor of Liverpool leading on Fairness and Tackling Poverty I'm pleased to respond to the call for evidence from the Committee. Along with Manchester, Liverpool was the among the first cities to see a large scale roll out of Universal Credit, starting in 2014. The Universal Credit 'full service' has been live in the city since December 2018. Our response briefly responds to two of the main questions highlighted in the call for evidence; these relate to the objectives of UC.

How well has Universal Credit met its original objectives?

The original objectives of Universal Credit (UC) include simplifying the benefits system, making work pay and moving to a digital on-line model. It is also important to recognise that Universal Credit does not exist in isolation from the objectives of a wider welfare reform programme by Government, indeed it is at the centre of it. The protracted roll out of UC has seen multiple changes to the 'legacy benefits' which UC is designed to replace. These changes to legacy benefits have simultaneously become an integral part of Universal Credit; the most important examples include the under-occupation penalty (the 'removal of the spare room subsidy'), the Benefit Cap and the two-child policy. Each of these changes has had a very specific policy intention which is now integral to Universal Credit. It is perhaps a sterile debate as to when these changes became part of the policy intention for Universal Credit: suffice to say that they were fully incorporated in UC long before 'full service' commenced. For this reason our response to the question assumes that these wider reforms, which are now part and parcel of UC, formed part of a wider set objectives at a relatively early stage of the roll out of UC and our response is written accordingly.

Returning to the original objectives of Universal Credit it is evident that due to changes to work allowances under George Osborne that the original intention of UC to be more generous to those in work has been diluted, notwithstanding that these reductions were partially reversed in 2019.

A well-known feature of Universal Credit is the 5-week wait for benefit, which may be partially mitigated by the provision of 'Advances' or loans. During the roll out of UC Advances have become easier to obtain (from 2018). The provision of a loan whilst potentially mitigating the risk of immediate hardship and destitution creates a debt and a significant reduction in on-going entitlement. As the Trussell Trust has stated, 'Advance Payments have left claimants deciding between hardship now or hardship later.'

The delay also has been shown in numerous studies to contribute to increased rent arrears amongst UC claimants (e.g. https://www.riverside.org.uk/riverside-calls-end-five-week-wait-universal-credit/).

A dogmatic approach to the payment of housing costs can exacerbate the position on debt by removing the choice for the claimant to have this element paid to their landlord. Commencing work with a debt burden consequential from core features of the UC design does not ease the path into work.

Hardship during the wait for benefit has directly resulted in an increase in demand for urgent assistance with basic living costs (typically food and fuel) from Liverpool's local welfare provision scheme of around 9%. The growth in demand upon food banks during the roll out of Universal Credit, including that specifically related to the five-week waiting period is also well documented, by the Trussell Trust in particular (https://www.trusselltrust.org/what-we-do/research-advocacy/universal-credit-and-foodbank-use/). A well-designed system should not create and exacerbate hardship.

Universal Credit has a complex relationship with other 'passported' benefits. In the early stages of Universal Credit (UC) it acted as a passport to Free School Meals (FSM). This entitlement was withdrawn from April 2018 such that FSM entitlement for UC claimants now is only where earnings are below a given threshold; the impact of this is to exclude most working families in receipt of UC from entitlement. Despite a system of transitional protection for pre-April 2018 claims and a complex retained entitlement rule during the roll out of UC, the impact has been to create the type of 'cliff-edge' to entitlement which the original policy intention was expected to remove. Merging benefits was supposed to remove cliff-edges.

At the time of the change to FSM the Children's Society estimated that the restrictions on entitlement would result in around 1M children in poverty missing out on free school meals and indicated that the new rules create a cliff-edge where, for example, a family with one child passed the £7,400 threshold, they would need to earn £1,124 a year more to make up for the loss of free school meals.

There is a parallel position, i.e. a cliff-edge, for Free Prescriptions.

The impact of the inflexible 'assessment period' on Universal Credit earners has also been complex and has resulted in instability for people in work where they are paid twice within an assessment period, which is particularly likely to occur at Christmas. This is a significant design flaw within UC given the financial shock it can create to the budget of a person in work. This fails to provide the quality of support to people in work which was a stated policy intention.

A stated intention of Universal Credit was to both modernise and ease the process of claiming. The Government has attempted to assist with a growth in support to those with limited digital access and / or skills through provision of relatively small amounts of funding, initially to local authorities and latterly (from 2019) to Citizens Advice. The Government's approach in this area whilst acknowledging the need for support to claimants, particularly during the introduction of new ways of claiming, has been characterised by late decisions on funding and a restrictive approach to who may be helped. Typically, the funding was only confirmed at or around the commencement of the relevant financial year making it difficult for local authorities, and now Citizens Advice, to plan provision on a stable basis. Such a fundamental element of the transitional support to claimants deserves a clear and stable funding platform supporting continuity of provision.

Turning to the wider welfare reforms which UC incorporates it is unclear how the stated policy intention of the 'benefit cap', 'the two child policy' and 'the under-occupation penalty' (also referred to as 'the bedroom tax') are intended to dovetail with the wider objectives of UC. In our 2018 report, 'Universal Credit Unintended Consequences', the disconnect between the stated aims of UC and the outcomes for many families was highlighted. This includes the imposition of the 'benefit cap' on families with very young children (under age 3) who are not expected to seek work (around half of those affected at the time) and the effects of 'the under-occupation penalty' on sick or disabled people with little or no prospect of finding alternative cheaper accommodation (around two thirds of those affected). The report also set out a series of asks to Government to reform and review the design of Universal Credit and suggested that the roll out was paused until these changes had been considered. The City Council has also written to the Government on several occasions requesting that the overall impact of welfare reform is evaluated, that Universal Credit is fundamentally reviewed, and that the Government reconsider its approach to funding additional discretionary support. In addition, we have had the opportunity provide written submissions to, and oral evidence at, the Work and Pensions Select Committee in regard to its work on the impact of Universal Credit.

The Government undertakes an impact analysis for each individual benefit reform but has never undertaken an analysis which attempts to understand how the 20+ major reforms implemented since 2010 have combined and converged to affect citizens, communities and the wider economy. Despite this, it is clear that many of our citizens are affected by several reforms: in addition, reductions in income have an attritional impact overtime as housing and living costs increase while benefits reduce or remain static.

In 2017 Liverpool City Council undertook a Welfare Reform Cumulative Impact Analysis (WRCIA) at a local level, drawing upon both Government impact assessments and local data. The analysis identified significant disproportionate impacts of the Government's welfare reform on disabled people, women, people with children, young people and social sector tenants aged 40-59. It also highlighted the particular effects upon people in work and in-work poverty. By understanding the cumulative impact of the Government's welfare reform, it is possible to better formulate evidence-based policies and, working with partners, to plan, target and evaluate how to best provide advice and support to those most in need.

The need for the Government to undertake a cumulative impact analysis of welfare reform has not diminished as a consequence of the roll out of UC; it is now arguably more urgent than ever as those people on legacy benefits await the migration to UC.

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

The objectives of making work pay and modernising and simplifying the benefits system were widely supported. However, the stated objectives of UC must be situated within the wider strategy of welfare reform since 2010. A comprehensive statement of strategy and objectives would include approaches to child poverty, debt, housing costs and avoidance of hardship. The perceived economic impact of UC in relation to employment outcomes are only one financial measure; there is need to evaluate UC against a broader view, accounting for the wider social and economic costs and benefits of the social security design.

Fundamentally the language of Universal Credit currently focusses upon employment and unemployment and this is to disregard the fact that the majority of recipients will either be in work, carers, sick or disabled. As Universal Credit reaches new cohorts including increasing numbers of in work claimants (currently in receipt of Tax Credits) and sick and disabled people (currently in receipt of Employment Support Allowance) there is a need to revisit the stated objectives of Universal Credit. This includes a specific evaluation of how UC meets the needs of disabled people and reviewing the approach to the Severe Disability Premium.

Liverpool City Council believes that a robust and fair social security system is essential to the well-being of individuals and society. The absence of a comprehensive accessible safety net is damaging to the fabric of society and has long term consequences for health, child development and economic development.

Our view is that the social security system should:

- Deliver wider societal and economic benefits by avoiding poverty, hardship and the risk of homelessness and acting to support good and fair employment, healthy child development, quality housing and positive sustainable outcomes.
- Be rooted in the understanding that a good social security system delivers a better society for all.
- Include specific longitudinal measures of success based on economic, social and health outcomes.
- Make sure that entitlements are easy to understand and to claim.
- Make payment quickly.
- Deliver on the basis of entitlement (and not rely on discretionary help).
- Show a realistic assessment of what is needed for basic living and housing costs (with no arbitrary ceilings or caps)
- Help people to avoid debt and not routinely incorporate the use of loans.
- Understand the cost of housing including local conditions and promote good quality, value for money accommodation.
- Recognise and reward good and fair employment.
- Respect particular costs associated with disability and be capable of flexing to meet specific needs.
- Uses data proactively to promote take up.

Liverpool City Council believes that the principle of allowing people to retain a greater share of their earnings is fundamentally correct but this aspect of UC needs to be reset to match original policy intentions.

We would also suggest that aspects of the system which embed poverty by creating hardship and debt need to be fundamentally reviewed. The five week wait for benefit does not reflect the needs of most people making a claim, being based on a view of most claimants moving from regular salaried employment, which does not reflect the reality of most claimant’s experience. The cliff edges associated with passported entitlements also need to be addressed. Fundamental design issues associated with assumptions of housing costs, including the under-occupation penalty, also need to be challenged.

Liverpool City Council would welcome the opportunity to make specific proposals to Government to pilot new approaches to social security including addressing specific issues such as better supporting people in work, or moving into work, better understanding of the support of disabled citizens, and a sustainable approach to housing costs support.

The functioning of the assessment period needs to be reviewed such that UC reflects the average income of claimants over a reasonable period (e.g. 6 to 12 months) and does not create needless crises for claimants.

Liverpool City Council believes that a social security system will function more effectively if it is associated with good and fair employment. There is always a risk that benefit payments become a subsidy to poor and unstable employment and economic modelling should account for the interaction of UC with employers and employment practice.

Liverpool City Region (LCR) Combined Authority has recently commissioned a review of the impact of Universal Credit from the Resolution Foundation. The review concluded (amongst other things) that '…more families lose from the switch to UC – and fewer gain – in the LCR than the UK as a whole. 52 per cent of benefit-recipient families in the LCR 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.'

A detailed review of the impact of Universal Credit (including incorporated welfare reform) is needed to properly evaluate the current and future impact and inform the design of the social security system through systematic analysis and evidence.

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