

CITIZENS ADVICE CRAVEN AND HARROGATE DISTRICTS (CACHD) – WRITTEN EVIDENCE (EUC0097)

The economics of Universal Credit

How well has Universal Credit met its original objectives?

1. Three main objectives were repeatedly set out when Universal Credit was introduced: making work pay; making the system simpler; and protecting the most vulnerable.

"Make even small amounts of work pay and be seen to pay"¹

2. **Universal Credit has improved the incentive to work for some.** Notably and very helpfully it has corrected a very significant benefit trap with the legacy system for couples where one is disabled and in the support group of ESA and the other is their carer but would like to do some work.
3. **However, for many disabled people it has lowered the incentive to work and made it very difficult to make work pay.** The legacy system – through permitted work in ESA for those working less than 16 hours a week and the disability element of WTC for those working at least 16 hours a week - recognises the significant additional costs that disabled people face when working that they wouldn't face if they weren't working; costs that can't be covered by the Access to Work scheme. However Universal Credit has made it much more complicated to access any additional support, as well as lowering very significantly the amount of additional support it offers to disabled people in work.
4. The support offered in UC was originally meant to be through the limited capability for work element (LCW) or the limited capability for work related activity element (LCWRA) plus the disabled person's work allowance. Many disabled people who would qualify for support under the legacy system won't qualify for any additional support under UC; e.g. someone who is unable to walk but can self propel their wheelchair more than 50 metres. However even those who qualify as having LCW will receive no additional support if they are parents as the LCW element has been phased out and the disabled person's work allowance isn't available to parents as they have the parental work allowance.
5. One very specific group of UC claimants simply cannot afford to work, **those who are dependent on the loan of mortgage interest payments to keep their home, but can only do a few hours of work a week due to disability or a long term health condition.** In the legacy system, someone can keep the mortgage interest payments in their ESA, as long as they earn less than £131.50 a week. Under UC, *any* paid work, however negligible, will immediately cause the mortgage interest payment loan in their UC to stop. If they stop working, they have to wait 9 months to re-qualify. Therefore, **UC also deters those with fluctuating conditions from trying to return to work if their condition improves,** as if they have to stop working, they will have to wait another nine months to requalify for the loan.
6. **It was also promised that every additional hour of work would pay, but parents of children in junior or secondary schools, especially if they also have childcare costs, will find at the point they will lose free school meals it will be quite difficult to make extra work pay.**² For example a single parent working at a supermarket is asked to increase her hours to do an extra shift of 3

¹ UC evaluation Framework Dec 2012

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/180879/universal-credit-evaluation-framework.pdf

² At present there is some transitional protection whilst children remain at the same school but any permanent rise in income would mean that the extra shift would leave the person worse off after paying for their children's meals.

hours a week. She is paid an extra £27 for this – after the taper this is an increase in her income of about £10 a week but she will have to pay for school meals for her two children (average cost £23.50 a week in term-time or £17.60 averaged over the whole year) she would be £7.60 a week worse off. If she needs additional childcare to do this extra shift she will have to pay 15% of any increased cost making it even harder to make work pay. **Other passported benefits will have a similar effect on some groups** depending on individual's particular circumstances – for example a couple who both need prescription medication each month.

7. **Many self employed people find it very difficult to make work pay on UC, and are frequently worse off than if they were unemployed.** This is because of the minimum income floor (MIF). Under the MIF it is assumed that a self employed person has earnings of at least 35 hours times the minimum wage each week – earnings of about £1250 a month (25 hours for parents of school age children – about £890). Moreover they need to have this income every month or they will be penalized each month they don't, **even if their income averaged over the whole year meets the MIF.**
8. *We have seen a number of clients who would be better off not working. Peter³ had just recovered from spinal surgery. Whilst he had been off sick he had lost a number of his customers – it was going to take him some time to build up his customer base again but meanwhile would be worse off than if he was unemployed.*
9. **Claimants whose income doesn't come in regular monthly sums, such as builders or farmers, are even worse off** as their income isn't averaged so anything above the MIF in one month is in effect taken into account twice. For example someone with a maximum entitlement of £1500 a month and a MIF of £1000 if they earn £2000 one month and nothing the next month will receive £240 UC the first month but still only £840 the next month a total of £1080. If they had earned the same amount but spread evenly over the two months (£1000 each month) they would have received £1680 UC – in just 2 months they have lost £600 UC – over a third of the income they should have been entitled to receive.⁴
10. The additional complexity of trying to make payments from their customers fit into APs and providing income details and expenses to be taken into account on a monthly basis has driven some of our clients into giving up claiming and others to give up self employment.

A simpler system

11. Despite the undoubted potential of UC to offer a simpler system it has **produced a system that is for many, far more complex to navigate than the system it replaced.** The aim should be a system that is simple to use. But the focus has been on simplifying the *rules* instead of looking at people in different circumstances and simplifying the *route* they need to take through the system. The very obvious example of this is the rigidity of the Assessment Period (AP).
12. The 'simple rule' that any money paid in or out during an AP counts for that AP irrespective of the period for which it was paid, has created a totally non intuitive level of hidden complexity for many claimants (and Jobcentre staff – we have seen a number of clients who have come to us struggling to manage because they claimed too early or on the 'wrong day' following advice to claim straight away from the jobcentre). It also means that many are struggling to manage with large fluctuations in their income even though they have a regular wage coming in.
13. **When to make a claim for UC – Up to now we have always had a system where if you suddenly need financial support the straightforward advice would be make a claim as soon as possible, you couldn't lose money by claiming early. This is no longer true, under UC you face a loss of hundreds**

³ To preserve confidentiality names used are not the real names

⁴ They will have £2000 of earnings taken into account the first month but still have £1000 taken into account the next month, though they have earned and only need to earn £2000 over 2 months.

of pounds and waiting more than 10 weeks for first payment if you claim on the 'wrong day'.

14. The principle behind the five week wait was that people would live on their final monthly wages during that month. Whilst this doesn't work for those who were previously claiming weekly or fortnightly benefits or had been paid weekly, there is also an additional hidden danger especially for those paid monthly.
15. *We have seen a number of clients who were paid monthly and who were only paid a few pounds after 5 weeks and had to wait 10 weeks before they were entitled to their first full payment. Mike went into the Jobcentre because his job was ending. He was advised to claim UC but after waiting five weeks he only received a few pounds. He rang the UC helpline to find out what had happened and was very angry to discover that because he had claimed a few days before his final earnings were paid these had been taken into account as final income. He had to wait another five weeks till his next UC payment. He had lost hundreds of pounds. He couldn't even claim an advance payment to get through the next five weeks as he was now in his second AP. Claimants in his situation are understandably extremely upset and angry that having done what seemed the sensible thing they are left destitute and pushed to food banks, selling belongings and getting into debt and rent arrears.*
- 16. The wrong day to make a claim has other consequences**
17. *CACHD client, Anne, loses over £600 a year simply because she claimed UC on the final day of a month (as advised by a Work Coach). Anne's AP runs from the final day of each month to the penultimate day of the following month. She is paid on the last banking day of the month. When the end of the month falls on a weekend, two lots of monthly earnings slip into one AP followed by none in the next AP. This not only leads to someone who has regular wages having to cope with great fluctuations in their monthly income but also a loss of over £600 a year as she is not entitled to the work allowance for each of the APs when no earnings are taken into account. There is no escaping from this situation as the date your AP starts cannot be changed. This issue was challenged and the case was won in the High Court – DWP have appealed and it is due to be heard in the Court of Appeal in May.*
- 18. Other claimants with regular earnings have to cope with income that fluctuates**
We regularly see clients who are paid 4 weekly, fortnightly or weekly. All of these have UC payments that fluctuate even if their wages remain the same. This is because those paid weekly will sometimes have 5 wages in an AP and sometimes 4, those paid fortnightly will sometimes have 2 and sometimes 3 wages. Most difficult to cope with, those paid 4 weekly will once a year have 2 wages in one AP. Many clients we see have not been expecting this and it can throw them into debt. It is extremely difficult on a very low income to manage these fluctuations.
19. **Clients with zero hours contracts also frequently struggle due to UC with even greater fluctuations in income than their fluctuating earnings necessitate.** *If monthly earnings are paid just before the end of their AP then UC will compensate for low earnings with higher UC that month. However if monthly earnings are paid just after the end of the AP someone with high earnings one month and unexpectedly very low earnings the second month will find it incredibly difficult to cope financially during the third month. At the end of the second month they will receive almost no wages but also no or very low UC. There is no escaping from this situation as the date your AP starts cant be changed.*
20. **However it is not just a simple structure hiding complexity - some of the rules themselves are extremely complex. For example someone with a deteriorating condition that needs to reduce their hours of work can only claim the additional financial support they may need to stay in work by having a work capability assessment (WCA) and being placed in the LCW or LCWRA group. However they can't ask for a WCA unless they are already receiving PIP (many in this situation aren't yet receiving PIP⁵) or they are earning less than the equivalent**

of 16 hours at the minimum wage. This causes problems for both claimants and their employers as the hours may be too low to make the work viable. It makes no sense to have this rule as once you have had the WCA and been placed in the LCW or LCWRA there is no limit on earnings. Moreover it is our experience that those who want to continue working but need to reduce their hours because their condition has worsened are not told by advisers at the Jobcentre about the possibility of additional financial support by applying for a WCA even if they are already on PIP.

- 21. We have seen several clients who have decided not to claim or to stop claiming UC and prefer to struggle without the additional financial support they clearly need because of the complications of the way the system works.**

Whilst protecting the most vulnerable ...

The raising of the LCWRA element to £336 a month is welcome, compared to the equivalent in the legacy system of the support component plus the enhanced disability premium (total £241 a month for a single person or £272 for a couple).

- 22. However the most vulnerable claimants are those who are severely disabled⁶ and live on their own or with just another severely disabled person or with dependent children.** Someone in this group, even with the LCWRA element, will be £191 a month worse off on UC.⁷
- 23.** The SDP is in recognition of the very many additional costs that this group face that those who have a carer or a partner living with them don't such as paying fares for family members at a distance to come and help care for them once or twice a week, paying a cleaner to do the heavy work they cannot do, buying small gifts for neighbours who help out, paying for even very small DIY jobs, paying someone to drive their car when they cannot. Single parents in this situation are often very concerned about the impact acting as their carer is having on their children's school work and social life. The SDP is often used by the parent to try to limit the amount the child has to do by for example paying for a cleaner so the child is not doing that as well or paying for taxis so they can take them on outings. It is a serious concern that this drop in income will mean that children who are carers will end up even more socially isolated. **We believe the lack of an equivalent of the SDP in UC is one of the most worrying aspects of the move to UC.**

Were the original objectives and assumptions the right ones?

- 24.** The objective of making work pay is obviously right. However the assumptions are too simplistic. **A straightforward taper is simpler than multiple tapers but this is not enough to ensure work always pays.** A number of mechanisms within the legacy system⁸ do a lot to prevent claimants being worse off when earning. It should have been easier to ensure that work when claiming UC always pays but, as shown above, the opportunity has been missed.
- 25. The objective of making the system simple and making it simple to use are often conflated, but this assumption is incorrect** as has been demonstrated in paragraphs 10 to 17 above. Combining benefits is a step towards simplification (though this hasn't been as effective as it might have been because Council Tax Support isn't included) However the assumption that all claimants

⁵ You need to have been at the qualifying level of impairment for at least 3 months and it takes on average about 4 months from making the claim to it being awarded

⁶ Defined with the legacy system as someone who is entitled to PIP living costs

⁷ In the legacy system they would be entitled to the severe disability premium (SDP) worth £286 a month in addition to £241 in the support group

⁸ The loss of free school meals happening at the point that WTC is paid helps prevent an increase in earnings meaning a loss of income. Similarly child benefit in effect being ignored twice in housing benefit works as an additional earnings disregard that increases with the number of children thus offsetting the extra costs of more children when working

would realise all the implications has been disproved by the fact that many Jobcentre staff who deal with the system every day don't understand what precautions are necessary to prevent unnecessary hardship. Moreover even if every claimant were to be given the right advice to avoid the elephant traps within the system it still wouldn't be a simple system to use.

26. **The objective of protecting the most vulnerable is clearly right but the lack of an equivalent of the severe disability premium means that those who are the most vulnerable are much worse off under UC.**

How should they change?

27. ***To ensure work pays there needs to be a recognition that a single taper is not enough to ensure this, individuals circumstances need to be taken into account.***
28. The additional support for disabled people in work in the legacy system needs to be restored including the following: the LCW needs to be reinstated, work allowances (WAs) need to be additive, anyone receiving PIP or gets some points in the WCA should be eligible for the disabled persons WA and those with a mortgage need to be able to access a loan of mortgage interest whilst working up to their WA. Also if they try work of more than their WA but need to reduce their hours of work again within a year they should be entitled to the loan without waiting another 9 months.
29. Passport benefits need to be taken into account so that claimants don't face losing money when their earnings rise.
30. The MIF for those who are self employed needs to be removed – there could still be a realistic test of whether the work is 'gainful'.
31. ***The system needs to be simple to use – much more account needs to be taken of different claimant journeys through the system***
32. Better information and advice for claimants on when to claim and how to avoid losing money is obviously useful. However it can only be a sticking plaster; the system needs to be much simpler to use. Earnings should be attributed to the period that they were earned and final earnings ignored so you can't lose huge sums of money by claiming on the 'wrong day'.
33. Allowing people to opt for fortnightly APs – not just fortnightly payments - would help smooth out income flow for claimants.
34. ***The most vulnerable should be protected.*** We believe there should be a '***self care element***' paid at the same rate as the carer element to those who don't have a carer. This would fit in with the structure of the UC system and be simple to administer as there would be no necessity to limit it to those who live on their own.⁹

What effect has fiscal retrenchment had on the ability of Universal Credit to successfully deliver its objectives?

35. We are concerned that many of our clients, whether in work or not able to work, are now finding it increasingly difficult to manage financially because of the benefits freeze. Referral to food banks has become commonplace, people coming to the CAB destitute is not unusual. Over the last five years the basic living costs element of Universal Credit and all other benefits has risen by just 70p from £72.40 a week in April 2014 to **the current rate of £73.10 for one adult in a household. To have kept in line with inflation the benefit level would have to have risen by £7.99 to £80.39 a week.**

⁹ In the legacy system relaxing the necessity to live on their own would have brought in many who had partners that were working. However under UC carers who are working can claim the carer element as there is no earnings limit for carers.

- 36. The five week wait for first payment in UC means that many of our clients have no option but to request an Advance Payment of UC** – this has a serious impact on their income over the next year. A single person in rented accommodation is quite likely to be paying back an advance payment at £14 a week for a year – **leaving them with less than £60 a week** (or if they are under 25, £12 repayment leaving about £46 a week) to cover all food, clothes, household costs, gas, electricity, travel costs, phones etc. In addition, many are having to find some of their rent out of this basic living costs element because the freezing of the LHA rates means that private rents are usually higher than the housing element of UC. This leaves people having to constantly negotiate with creditors, focusing on constantly trying to keep their head above water financially, anxious and more socially isolated, making it more difficult to seek work.
37. **The benefit freeze also means that those who are in work and claiming UC find that when their wages rise with inflation, or their tax drops because of lowering of the tax threshold, their benefit doesn't remain frozen at the same rate but drops by 63% of any rise in earnings they have received.**
38. Other cuts such as the drop in the number of groups entitled to a WA and the amount of the WA have substantially decreased the incentive to work especially for those with mortgages. The subsequent lowering of the taper with the partial restoring of the WAs was presented as compensating for these losses. However the WAs have not returned to their previous level and this has a much greater impact on making work pay than does the taper.
39. **The most substantial cut has been that of the LCW element, a loss of £29 a week, £126 a month, to those out of work. However, for those claiming UC, there is an equal loss to those in the LCW but in work.** The LCW element was a key component of the additional financial support available to disabled people in work and for parents in the LCW group – the only additional support. This cut makes it very difficult for those with additional costs in work to make work pay.

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

Gained;

40. Those who are in the LCWRA/support group and who don't live on their own have gained as have those who are carers but also want to work.
41. Those on higher incomes and who live in privately rented accommodation, especially those living in more expensive areas, have also gained

Lost out:

42. Disabled adults and children have lost out in numerous ways and despite the rise in the LCWRA element the total additional support specifically aimed at disabled people has been cut by at least £1.4 billion. For more detail on the ways in which additional support has been cut see: *Mending the holes: restoring lost disability elements to universal credit*¹⁰
43. Single parents are also much more likely to be worse off under UC as are self employed people, those with a mortgage and workers and/or parents who have savings.

How has the world of work changed since the introduction of UC? Does UC's design adequately reflect the reality of low-paid work? If UC does not

¹⁰ Report by the Disability Benefits Consortium
<https://disabilitybenefitsconsortium.wordpress.com/2019/10/18/dbc-launches-new-report-on-universal-credit/>

adequately reflect the lived experiences of low-paid workers, how should it be reformed?

44. Paragraphs 10 to 19 lay out the many ways in which UC doesn't reflect the reality of claimants' work.
45. **Restoring the additional support that went to disabled people under the legacy system and increasing the work allowances should be the absolute priorities, not reducing the taper.** Those on the lowest income should be the priority, lowering the taper gives much more to those on higher incomes. The Treasury estimated that reducing the taper by 2% would cost £700 million a year by 2020/21¹¹. It gives a couple earning £700 a week an additional £14 a week, but a disabled person or a single parent earning £100 a week an additional £1 a week. The LCW element could be reintroduced for the same cost making the disabled person in work £29 a week better off.
46. Similarly restoring the WAs to their pre 2016 rates would make a very significant difference to those struggling on a very low income. It would for example, give a rise of £16 a week to all those who aren't parents or disabled and so who currently don't have a WA and a rise of £33.50 a week to single parents in work and struggling to pay a mortgage.
47. The rules on supporting disabled people to work need to be simplified.
48. We have seen no evidence that employers at the lower end of pay-scales are switching from weekly to monthly pay cycles. Claimants should be allowed to opt for fortnightly assessment periods – averaging earnings for those paid at longer intervals.
49. Earnings should be assigned to the period they were earned and final earnings ignored.

28 February 2020

¹¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/571402/Policy_Costings_AS_2016_web_final.pdf