

# **ZACCHAEUS 2000 TRUST (Z2K) – WRITTEN EVIDENCE (EUC0101)**

## **The economics of Universal Credit**

1. Zacchaeus 2000 Trust (Z2K) is an anti-poverty charity that uses casework to work with people to prevent homelessness and support people to access the Social Security benefits they are entitled to. We use evidence from this work to campaign for change. A growing number of the people we work with are now either already on Universal Credit (UC) or at risk of adverse effects if they move onto it. That is why we made a formal complaint to the Advertising Standards Authority (ASA) about the Department for Work and Pension's (DWP) misleading "UC Uncovered" adverts in The Metro newspaper last year. The ASA upheld our complaint and ordered DWP not to publish those adverts again.<sup>i</sup> We welcome this inquiry and hope the DWP will finally be persuaded to engage meaningfully with the growing body of evidence of the problems UC causes many claimants.

## **How well has UC met its original objectives?**

2. The originally-stated objective of UC was to make sure that work always pays more, and that benefits do not exceed the average salary.<sup>ii</sup> For many of our clients who are unable to work due to a disability or health condition, UC does not incentivise them into work, but penalises them for not being able to.
3. UC also aims to simplify the benefits system, making it easier for people to understand. For many of our clients, the UC system is neither simple nor easy to understand. People miss important decisions and information regarding their UC claim because the DWP insists on informing people, including those who are not digitally literate, of important decisions and information via their online UC journal only. What is more, many clients find it difficult to work out the breakdown of their payments and deductions on their UC journal entitlement pages.
4. An original objective of UC was to cut back on fraud and error. However, many people on UC have experienced the following DWP errors: UC overpayments, Managed Payment to Landlord (MPTL) maladministration and underpayments, Work Capability Assessment (WCA) decision errors, incorrect judgements on Right to Reside tests, and incorrect calculation of UC payments due to fluctuating income.

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

5. The original objectives and assumptions were misconceived from the beginning, and not the right ones. As a result, they are not being met, and the ongoing delays to the roll-out of UC have only reinforced this.
6. The most damaging of these assumptions for our clients, is that work will always pay more, implying that everyone can and should work. However,

many of our clients cannot work due to a disability or serious health condition. UC's focus on making work pay and getting people into work does not acknowledge that work is not suitable for everyone. It makes those who cannot work worse off, as if they are completely unvalued within society. The fact that 2,073,000 people on Social Security benefits claim Employment and Support Allowance (ESA), compared to 251,000 claiming Job Seekers Allowance (JSA),<sup>iii</sup> demonstrates the extent to which for many people, work is not suitable.

### **What have been the positive and negative economic effects of UC?**

7. The overarching economic effect of UC for our clients, is that they no longer have enough money to live a stable and dignified life, and don't have enough control over how and when they receive their money.

### **What effect has fiscal retrenchment had on the ability of UC to successfully deliver its objectives?**

8. The Benefit Cap, introduced in 2013, aimed to reinforce UC's objective of making work pay more and getting more people into work, but only 5 per cent of capped households move into work because of the cap.<sup>iv</sup> UC also aims to reduce in-work poverty. However, because of the cap, people who are working less than 16 hours a week receive limited support from UC and are disadvantaged financially.
9. Work allowances were cut in 2016, and despite being increased slightly in 2019, this did not restore them to their true value.<sup>v</sup> The work allowance for a single person with children who has no help with their housing costs is still £231 less than the pre-April 2016 allowance.<sup>vi</sup> What is more, work allowances were also limited to people with responsibility for a child or limited capability for work in April 2016 – this can leave disabled people assessed as fit for work over £300 a month worse off on UC. Reductions to the work allowance means that working disabled people without children can be over £200 a month worse off on UC,<sup>vii</sup> and these reductions have undermined UC's original objectives of making sure that work always pays more and reducing in-work poverty, because people who earn above the reduced monthly work allowances, yet whose income does not cover the rising cost of living, will receive reduced levels of support from UC.
10. Tax credits, local housing allowances, and most working age benefits including UC were frozen for four years from April 2016. Not only does this leave people who are unable to work without adequate levels of support, it also fails to deliver on one of UC's original objectives of reducing in-work poverty, as people in employment who require additional support do not receive enough in UC payments to lift them out of poverty. More than three in five people in poverty are in a working family.<sup>viii</sup>
11. The two child limit, which was introduced in 2017,<sup>ix</sup> unfairly penalises families who have more than two children. It undermines UC's original aim of ensuring that people with caring responsibilities are given greater flexibility in the number of hours they can work, because people with more than two children might be in a position where they have no choice but to work more hours to make up for the fact that their UC payment does not cover their family's essential costs.

## **Which claimants have benefited most from the UC reforms and which have lost out?**

12. Z2K understands that some people have benefitted from UC. However, the majority of our clients have not, and so our response focuses on the claimants that have lost out.
13. UC claimants have to wait five weeks for their first payment. This can cause many to get into debt and rent arrears, especially those moving over from legacy benefits, as they rarely have enough savings to cover their costs during this five week period. Whilst you can now get a two week Housing Benefit (HB) run-on if you go straight from HB to UC, due to issues with the initial UC claim this rarely happens. So far, the two week run-on does not appear to have made any real difference to the proportion of social tenants in arrears.<sup>x</sup> What is more, in some circumstances if people make a mistake on their UC application and they have to resubmit it, it becomes a new claim generating a further delay to receiving their first payment.
14. DWP upholds Advance Payments as the solution to this five week wait. However, as our complaint that was upheld by the ASA states, these advance payments are essentially loans and claimants are often unaware of the full impact this will have on their future payments. Fixed Advance Payment recovery rates often result in monthly deductions that leave claimants without enough money to feed and clothe themselves.

*Tom applied for a £500 advance payment. At the time, he was not aware of the impact borrowing this much would have on his payments going forwards. He now has £48 deducted from his standard allowance every month to repay this advance, along with £85 in other deductions that include an overpayment and budgeting loan. He is losing nearly half his standard allowance – leaving him with just £40 a week to live on. Unsurprisingly, Tom has had to resort to foodbanks and borrowing from family to heat his home.*
15. Adults with learning, social and mental health disabilities lose between £400 and £500 a year as a result of the rollout of UC,<sup>xi</sup> and 22 per cent of people with a disability, or those who live with someone with a disability, lose at least £1,000 a year from UC, compared with 14 per cent for other claimants. This is because disabled people are more likely to be out of work - it is relatively difficult to gain from UC if a family is out of work - and UC's treatment of disability.<sup>xii</sup>
16. People who were previously on ESA have been among the worst affected by the transfer to UC. Whilst the DWP has decided not to move any more recipients of the Severe and Enhanced Disability Premiums onto UC, thousands lost that money through natural migration prior to June 2018. Some are still waiting to have it reinstated going forward and to be recompensed for what they lost up until this point in time.
17. UC's assumption that everyone can and should work has resulted in many of our clients who cannot work, being incorrectly assessed as 'fit for work' by the WCA and placed in a UC conditionality group that is not suitable for them. This means they receive the same level of financial support and are subject to the same work related requirements as someone who is able to, and looking for, work. It can be difficult to challenge these incorrect assessments, because UC

WCA decision letters are much less detailed than they were for ESA. They omit crucial information, such as how many points the claimant has scored for each "indicator" and what the healthcare professional noted during the face-to-face assessment. DWP seems unable or unwilling to provide this information even when asked. One of our clients was placed in the Work Related Activity Group, and in response to her request for a detailed breakdown of the decision, her Work Coach said, "*we do not hold information on the descriptors you scored during your WCA.... This would be held by Medical Services (Maximus)*". This is really troubling. Whilst UC WCA decision notices say claimants can ask for a more detailed explanation of their decision within one month of receiving it, they are also required to request their Mandatory Reconsideration (MR) within the same one month timeframe.

18. Under ESA rules, claimants who appeal a negative decision can claim the appeal rate of ESA while waiting for their tribunal date. This crucial regulation means that claimants do not have to fulfil Job Seeking requirements which are necessary under JSA, while still getting a modest amount to live on until their appeal is heard. Shockingly, under UC regulations, no equivalent rules apply. This means that when claimants fail a WCA, they are required to start actively seeking work for their standard allowance of £73.10 to continue. Added to this, UC does not allow for an extended sickness period of 13 weeks as with JSA. Instead, it gives claimants a maximum of 14 days rest from job seeking due to disability twice a year. A claimant can ask for their claimant commitment to be reviewed in light of their disability and the fact that they are appealing a negative decision, but this is at the discretion of their work coach and there is little consistency. Three quarters of those who appeal against being found fit for work, see DWP's decision overturned at tribunal.

19. We have also seen cases where our clients' legacy benefit support has not been protected when they transition from legacy benefits to UC.

*Before Joseph moved from ESA to UC, he was getting the Work Related Activity Rate (WRAG). He tried to apply for an MR as his previous ESA entitlement had not been carried over to UC under Transitional Protection. Joseph was met with a written response, which was not in conformity with the actual regulations, as they said that he wasn't entitled to Transitional Protection because he moved to UC as a result of a change in circumstance.*

20. UC can also have an adverse impact on people who experience domestic, including economic, abuse. As a joint claim is paid into a single account, this can lead to situations where an individual denies their partner access to this income, or where the individual who is controlling the money diverts the money away from household expenses which puts their partner in debt due to joint liability, or where an individual does not pay the rent which puts their partner in debt even if they have no liability - deductions for rent arrears in a sole tenancy are taken at a percentage of the joint standard allowance. The possibility of requesting split payments is unrealistic and dangerous for victims of domestic abuse due to the coercive control they experience.

21. People who are not digitally literate are among those most disadvantaged by UC. Claimants are expected to monitor their UC journal despite having no digital literacy, and when they don't accept online claimant agreements, their claims are closed. Vulnerable claimants are not adequately supported in managing their claim, and whilst the DWP is supposed to make efforts to

contact vulnerable claimants beyond posting on their UC journal before their claim is closed, in practice this does not happen. People who are not digitally literate are not adequately supported - the Help to Claim service delivered by Citizens Advice has long wait times, and the DWP does not take the first date of contact with this service as date of claim for UC. Despite the DWP's insistence on digital, clients are not able to upload documents, apart from CVs and evidence of childcare costs, to their online journals. This means that they must attend their jobcentre and give documents to their work coach, incurring travel costs. What is more, because joint claims are managed via one online account, people who experience domestic and economic abuse are at risk of being denied access to their online journal, which contains important information regarding their claim and entitlement.

22. People who struggle to pay their own rent have lost out as a result of the move to UC. DWP is insistent that the default position is that UC claimants manage their own rent payments, and there is limited flexibility concerning requests from claimants to set up MPTLs. This is leading to tenants falling into significant arrears and facing the prospect of possession action and even eviction.

23. If MPTLs are granted, these can take months to arrange. We are also concerned about the number of administrative errors concerning MPTLs. We have seen UC housing element payments being made to clients despite them having successfully requested a MPTL on the basis of their vulnerability.

*Martin had been homeless for a number of years before moving into a studio flat brokered by Z2K. He felt particularly worried as he had not managed household bills such as council tax and utility payments in some time. Simultaneously, Martin experienced a stroke during the period of natural migration onto UC, and had further cardiac problems since then. Managing a tenancy alongside these health conditions was very overwhelming for Martin and he required a lot of care. Despite Z2K supporting his MPTL request on grounds related to his homelessness, the first payment was still paid directly into his bank account.*

24. People subject to the Benefit Cap lose out even more on UC than on legacy benefits. Previously, a household could only have their HB capped. On UC, the cap can be applied not just to a household's housing costs but to its whole UC award. This left one of our clients, who was subject to the Benefit Cap and who had set up a MPTL, with absolutely nothing to live on.

*Natalie has severe mental health problems which make even leaving the house a massive hurdle. Despite this, at her WCA she was refused ESA. That decision automatically stopped her HB being paid and she was advised to make a claim for UC. Due to delays in the payment of her UC housing costs, Natalie was in rent arrears, so the local authority applied for MPTL so the housing cost element was paid directly to them. As Natalie wasn't getting ESA, she was now subject to the Benefit Cap. All of her capped allowance was sent directly to her landlord with £0 left for her own living expenses. She was literally penniless. DWP's reply was that the MPTL "could be removed but it was not a good idea as all that would happen is Natalie would use the money and not pay her rent putting her at risk of getting evicted." Clearly her need to eat was not considered as important as paying her rent. Luckily, we were able to persuade Natalie's local authority to pay a DHP to cover the shortfall. However, the*

*discretionary nature of these payments means they cannot be relied on and undoubtedly there will be similar cases where a DHP is refused.*

25. People who are under 25 and have children lose out on UC, as they are subject to a reduced UC rate, which does not take into account the fact that these claimants are in a different living situation to other people aged under 25. CPAG has filed a judicial review claim challenging this.<sup>xiii</sup>
26. One of the most distressing problems some of our clients are experiencing are incorrect judgements on their Right to Reside resulting in the incorrect decision that they are not entitled to UC.

*Leah and her husband are from Norway. They were wrongly refused UC twice after being assessed as jobseekers. However, Leah was actually fully entitled to UC from the date of her original claim as she had been working part-time as an interpreter, which counts as "genuine and effective" employment. Even when her own job ended, she was entitled as her husband had by then started working too. Additionally, as the primary carer of a two year-old child, DWP were also wrong to assess her as a jobseeker.*

In most cases, DWP accepts its mistake when challenged by our advisers – in one case, they accepted that they had wrongly denied a client their Right to Reside six times. Every time a claimant is denied their Right to Reside, their claim is closed, and they have to start the process again.

27. Arranging a Habitual Residence Test (HRT), has proven difficult for some of our clients. On occasion, appointments have disappeared from clients' journals after being arranged and it can be extremely difficult to rearrange appointments claimants are unable to attend. These administrative delays are causing confusion, stress and for some resulting in the loss of benefits they are entitled to.
28. Given the extent to which claimants can lose out on UC, Z2K is seriously concerned that DWP still refuses to publish a full list of the natural migration triggers that transfer claimants to UC. This determination to keep claimants in the dark about what changes to their circumstances will switch them over seems designed to ensure they are unable to make decisions that could see them drawn into the UC net unwittingly, and limit the triggers for natural migration. The Work & Pensions Select Committee has highlighted similar concerns.

*Grace suffers from autoimmune diseases which are aggravated significantly by stress, she was triggered on to UC through a change of boroughs when she did a mutual exchange with another social housing tenant. The natural migration was anything but smooth, with issues from carrying over her entitlement for ESA / LCWRA to securing her housing element, to adjusting to the loss of her SDP. As a result, she now feels she has been punished for trying to better her life via a change of home. She is so anxious about being in debt she has refrained from spending hardly any of her money so she can avoid arrears. Grace is now considering moving to an elderly family relative where she would have no rent liability in order to avoid the stressful situation further. She wishes she had not thought of moving and never triggered the move over to UC.*

## **How has the world of work changed since the introduction of UC? Does UC's design adequately reflect the reality of low-paid work?**

29. While we recognise that a majority of workers are now paid monthly, this is not always the case, especially for those in low-paid or irregular employment. Forty per cent of UC claimants are paid by their employer more often than twelve times a year.<sup>xiv</sup> Those in work who are paid monthly can at least try to negotiate with their employer to be paid more frequently. UC's design does not adequately reflect this reality of low-paid work. UC's brand is "getting people back into work" and it is this that is usually given by the DWP as the reason for monthly payments to prepare people for "real life" work. However, this can cause budgeting challenges for claimants who are used to receiving income or legacy benefit payments more regularly.

30. Many people undertaking low-paid work receive fluctuating amounts each month - over 80 per cent of lower earners with a steady job have notable changes in pay from month to month.<sup>xv</sup> Whilst this is supposedly built into the UC design, UC does not adequately respond to this reality, and due to UC income being calculated by automated in-arrears reporting, incorrect calculations of UC payment amounts are often made. What is more, assessment periods for UC start and finish in line with when an initial claim is made, as opposed to when pay is received. This creates the potential for a significant lag between pay receipt and UC receipt, increasing peoples' risk of financial hardship and debt.

## **If UC does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?**

31. We disagree with UC as it is at the moment, and are calling for the following major reforms:

- Claimants should be able to choose whether they want to stay on legacy benefits (and reinstate the ESA Work-Related Activity Component) or move onto UC.
- DWP should ensure transitional protection for every claimant moving from legacy benefits to UC.
- Claimants should receive their first UC instalment within one week of the initial claim, not in the form of a loan, but as their first payment. This payment should be calculated as follows: a) for claimants in work, their last month's earnings should constitute their assessed income for their first UC payment; b) for those out of work, their legacy benefits should be converted to UC.
- Local authorities should use the date of a claim for UC for the calculating of Council Tax Support.
- Claimants should be given the choice to make their claim bespoke to suit their individual needs, allowing them to decide how to handle their money. This should include all claimants being able to: set up MPTLs, decide how they manage their claim (digitally, via letters, face-to-face etc.), and choose how often they would like to be paid (for example, fortnightly).
- For joint claims, separate payments and individual online UC journals should be the default.
- People aged under 25 who have children should not be subject to the reduced under 25 UC rate.

- If DWP maladministration has occurred, or a wrong decision has been made, UC claimants should not have to pay for this. They should also be compensated if they have suffered additional financial loss as the result of any error or wrong decision. DWP should also be more transparent about when they have made an error, and stop retrospectively editing their errors from peoples' UC journals.
- Claimants should be exempt from claimant commitments when appealing a negative WCA decision.
- DWP should ensure that people are adequately supported to live stable and dignified lives on UC, by removing the benefit cap and two child limit, increasing work allowances, unfreezing UC rates and restoring them to their true value so that they are proportional to the cost of living.

32. Until these major reforms take place so that vulnerable people are protected, we believe that natural and managed migration of UC should be stopped.

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<sup>i</sup> <https://www.asa.org.uk/rulings/department-for-work-and-pensions-G19-1021769.html>

<sup>ii</sup> [https://hansard.parliament.uk/Commons/2010-11-04/debates/10110443000001/WorkAndPensions\(CSR\)#contribution-10110443000214](https://hansard.parliament.uk/Commons/2010-11-04/debates/10110443000001/WorkAndPensions(CSR)#contribution-10110443000214)

<sup>iii</sup> 2020. DWP. [DWP benefits statistical summary, August 2019](#).

<sup>iv</sup> 2019. Work & Pensions Select Committee. [The benefit cap - Report Overview](#).

<sup>v</sup> 2018. CPAG. [The austerity generation: the impact of cuts to universal credit on family incomes and child poverty](#).

<sup>vi</sup> <https://www.entitledto.co.uk/help/Work-allowance-Universal-Credit>

<sup>vii</sup> 2018. Citizens Advice. Afzal Rahman. [Universal Credit for single disabled people](#).

<sup>viii</sup> 2020. JRF. [UK Poverty 2019/20: the leading independent report](#).

<sup>ix</sup> 2018. CPAG. [The austerity generation: the impact of cuts to universal credit on family incomes and child poverty](#).

<sup>x</sup> [https://www.independent.co.uk/news/uk/home-news/universal-credit-rent-arrears-delay-housing-citizens-advice-](https://www.independent.co.uk/news/uk/home-news/universal-credit-rent-arrears-delay-housing-citizens-advice-a8764696.html?amp&utm_medium=Social&utm_source=Twitter&_twitter_impression=true)

[a8764696.html?amp&utm\\_medium=Social&utm\\_source=Twitter&\\_twitter\\_impression=true](https://www.independent.co.uk/news/uk/home-news/universal-credit-rent-arrears-delay-housing-citizens-advice-a8764696.html?amp&utm_medium=Social&utm_source=Twitter&_twitter_impression=true)

<sup>xi</sup> 2019. Disability Benefits Consortium. [Has Welfare Become Unfair? The impact of welfare changes on disabled people](#).

<sup>xii</sup> 2019. Institute for Fiscal Studies. [Universal credit and its impact on household incomes: the long and the short of it](#).

<sup>xiii</sup> <https://cpag.org.uk/welfare-rights/legal-test-cases/current-test-cases/universal-credit-and-lone-parents-under-25>

<sup>xiv</sup> <https://www.resolutionfoundation.org/publications/irregular-payments/>

<sup>xv</sup> <https://www.resolutionfoundation.org/publications/irregular-payments/>

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