

# **SOUTHWARK COUNCIL – WRITTEN EVIDENCE (EUC0125)**

## **The economics of Universal Credit**

### **1. Executive summary**

- 1.1.** Southwark was among the first Universal Credit (UC) full service rollout areas, with the rollout of UC starting here in autumn 2015. Our engagement with UC and the Department for Work and Pensions (DWP) pre-dates the rollout by several years as we were acutely aware that neither we as a local authority, nor our residents, could afford for such a major change to the welfare state to go wrong.
- 1.2.** We have now had nearly five years of UC in Southwark. Our experience and evidence shows that in addition to the detrimental impact on claimants, UC in its present form still represents a significant, ongoing financial risk for local authorities and other social landlords. We believe that fiscal retrenchment combined with assumptions about the importance of placing greater personal responsibility upon claimants, sometimes contrary to evidence suggesting otherwise, has severely limited the ability of UC to successfully deliver its objectives.
- 1.3.** In this submission we will focus on several questions that form the basis of the Committee's inquiry, concentrating on those areas where we are best able feed back on matters that directly relate to us as a local authority and social landlord.

### **2. Contextual information**

- 2.1.** It is worth setting our experience of UC into our local context. While overall deprivation levels in Southwark have been falling since the start of the century, the most recent Index of Deprivation (2019) confirmed that 25% of our neighbourhoods are still among the most deprived in the country. At over 40%, more of Southwark's total housing stock is made up of rented social housing than any other local authority in the country; with over 35,000 council homes the Council is among the biggest social landlords in the south of England. More than half of our tenants rely on support through the benefit system to pay some or all of their rent and the changes to how housing cost support would be provided through the benefit system for social housing and above all council tenants were among the biggest potential risks of UC.

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

- 3.1.** A key driving principle of UC was "to overhaul the benefit system to promote work and personal responsibility." We were not necessarily opposed to the idea of giving welfare recipients greater personal responsibility but were sceptical of whether this could be achieved through

a simple re-design of the benefit system. This scepticism was based on our experience participating in a number of DWP trial programmes, including the *Direct Payment Demonstration Project* (DPDP) from 2011, and *Universal Support Delivered Locally* (USDL) from 2013. The DPDP was delivered within the legacy housing benefit arrangements to test the impacts of a change from a system where social housing tenants would typically have their housing benefits paid direct to their social landlord to one where payments would be made to the tenant who would then need to pay their landlord. The results of the DPDP suggested that it was highly likely that rent arrears among our tenants would increase significantly as a direct consequence of this change. Subsequently, USDL considered how best to provide support for claimants as they transitioned to the new UC system. It was our view that many claimants would require support to transition successfully to the new UC system and a significant minority would likely require intensive and ongoing support. The DWP's view was that only a small minority of claimants would require support and that any support offered should be temporary and targeted at enabling claimants to exercise greater individual responsibility for making and managing their claim and that this would be achieved through a mixture of budgeting and digital skills advice. Support would only be available *after* a UC claim had been made, through a system that was offered as "digital by default".

**3.2.** In both trials, the DWP was presented with evidence against their default assumption of greater personal responsibility. This determination to press on regardless of the outcomes suggested an attitude of testing but not learning. The failure to properly reflect on the impact of payments to individuals, rather than landlords, and the amount of support claimants needed to transfer to UC, would only become fully apparent once UC actually began to roll-out, as it did in Southwark in 2015. As we moved into the early rollout of UC we were concerned at the likely impact on rent arrears and despite our participation in earlier trials we were alarmed at the lack of evidence of the impact UC would have on claimants and landlords. Because of this uncertainty, in 2016 we commissioned independent research from the Smith Institute to compare the rent payment behaviours of social housing tenants claiming UC with the experience of a group claiming legacy housing benefit. The research published would go onto form the first of three "Safe as Houses" reports examining the rollout of UC in Southwark. All three reports can be downloaded here:

<https://www.southwark.gov.uk/benefits-and-support/safe-as-houses-universal-credit>.

**3.3.** The research found that both UC and the legacy housing benefit systems led to rent arrears after a new claim, but that under UC the arrears became entrenched, whereas in housing benefit most claimants went on to overpay their rent slightly. Within two years of UC rollout in Southwark at scale, the total level of rent arrears among over 35,000 Southwark Council tenants rose by 50%, peaking at almost £15 million in 2018. We believe it is only due to the increasing use of Alternative Payment Arrangements (APAs) that tenants who are claiming UC have been able to bring their arrears under control. APAs involve the housing payment being paid directly to the social landlord, and were intended only to be used in exceptional circumstances. Perhaps because of its own concerns about emerging issues of rent arrears among UC claimants, the DWP made a number of adjustments that made it

easier for Southwark Council and other social landlords to do so. We understand that the DWP commissioned its own research into impacts of UC for rent arrears a couple of years ago and that researchers worked closely with a number of social landlords (not local authority landlords) to better understand what was happening but to our knowledge the findings from that research have not been published.

- 3.4.** It is worth noting that in Northern Ireland and Scotland, the default position for social housing cost payments in UC is the opposite to England and Wales, so payments are usually made directly to social landlords. This is among a number of options for change to the fundamental assumptions and architecture of UC in England and Wales that we would urge Government to consider. Despite this, there have still been reported rises in arrears following the rollout of UC in Northern Ireland and Scotland. Some of that difference is likely to be at least partly accounted for the differing design of UC compared to legacy housing benefit (HB). A key new feature of UC is the five-week minimum wait (this was a six-week wait at the time when our first two waves of research were carried out). No such waiting period applied under HB: in most cases Councils, who administered HB on behalf of DWP, would make a first payment of HB within a couple of weeks of the claim being made. Secondly and just as significantly, HB was paid weekly in advance to council tenants while UC is paid monthly in arrears. DWP say that the five week wait is necessary solely to enable claimants to be moved onto a monthly payment cycle, a notion we dispute in sections 4 and 5.
- 3.5.** A further impact of the drive to promote greater personal responsibility was to make claiming UC more complex in some instances than legacy benefits, contradicting the stated aim of UC “to make the welfare system simpler.” As a digital by default system the claimant journey under UC is often lengthier and more complex than the legacy benefits it replaces, at the same time as placing the risks of failure to navigate the new system upon claimants. The risks of such a system, without adequate support, were clear from the results of the *Universal Support Delivered Locally* trial (see 3.1). This has resulted in a poor design of the claimant’s ‘journey’ when applying for UC: the Government’s own figures show that more than one in four of all UC claims fail, not because claimants were ineligible, but because they had failed to fulfil the requirements of their claim. This confirmed what we and our voluntary and community sector partners were observing. The model of support that was set in place by the Department following the USDL trials was in the Council’s view a failure. It was under-funded and offered too few claimants support. *Universal Support* was eventually abandoned by the DWP in 2019. It is too soon to assess the effectiveness of the new Help To Claim model of claimant support. It seems to direct support in a more effective manner but our initial view is that it remains underfunded and inadequate. We believe that more fundamental reform of the claimant journey itself would reduce the need for support.
- 3.6.** The assumption changing the benefit system by placing greater responsibility on claimants would wean benefit recipients off their apparent welfare dependency was one that underpinned the entire UC proposition. What we saw instead was a transfer of risk – to claimants above all – but also to other organisations indirectly but significantly affected by UC such

as local authorities and social landlords. It also created a risk also to the programme itself, particularly given its stated commitment to delivering UC "safely". We believe the Department's apparent dogmatism on the question of "greater personal responsibility", even in the face of evidence of the consequences, has led directly to damage to the reputation of UC. Some DWP officials have publicly conceded that the UC "brand" has become so toxic that many of those who might claim it actively seek to avoid doing so.

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

- 4.1.** Whether intended or not, the ideological inflexibility in the DWP around "greater personal responsibility" as part of UC would come to assist another of the Government's objectives: that of saving money. By shifting the burden of responsibility, significant administrative savings could also be realised – savings that the DWP was required to deliver. This is because UC's implementation coincided with a period of almost unprecedented fiscal retrenchment (often referred to as austerity) led by the Treasury. Retrenchment affected the DWP more than any other Whitehall department except Local Government. The decision to pay UC monthly in arrears, starting with a five-week wait for the first payment, appears to have no rationale other than to save money. It does this by moving Annually Managed Expenditure from one financial year to the next. Looking again at whether either the five week wait or monthly payment are necessary or even useful features of a reformed and unified working-age welfare system is something that the Council would urge the Government to consider.
- 4.2.** A further layer of complication is that fiscal retrenchment has been combined with reform of the whole welfare system, not just UC. A number of other welfare reforms were introduced before UC roll-out commenced but were subsequently subsumed within UC. Examples include the benefit cap and so-called spare room subsidy – or bedroom tax. Similarly, the benefit freeze and the three year 1% limit on annual increases that preceded the freeze applied to other benefits and eventually applied equally to UC. The DWP have subsequently said that the cost of UC is now set to be higher than it would have been under the legacy system. While technically accurate, this statement obscures the fact that this is only due to cuts imposed on the legacy system of benefits.
- 4.3.** Government welfare reform included major changes to the local housing allowance (LHA) which set the rate of housing benefit paid to welfare claimants living in the private rented sector. While the changes to LHA predated the rollout of UC, they have now been rolled into UC. LHA was originally intended to link benefit rates for housing costs to changes in local market rents so that cost of suitable properties at the lower end of the market would be always be covered. The reforms froze LHA at 2016 levels until this year, while rents have increased significantly. Aside from cutting DWP expenditure, it is unclear what the economic logic of this change was in a market where rents are unregulated. The consequences of that reform in a place like Southwark were sadly predictable. Increased levels of homelessness have resulted as lower income households are now unable to afford private rented accommodation and there is a shortage of available social housing: our latest research has found that the gap between the LHA

and the median advertised monthly rent for a two-bedroom property in Southwark is over £1000. While we have a clear policy to support our council tenants in arrears due to UC, many in the private rented sector are not as fortunate. As an interim measure, the Government has funded Discretionary Housing Payments (DHPs) which councils can administer to help people meet their housing need. We use 100% of our DHPs to try and prevent homelessness; however, relying on DHPs is neither a sustainable nor efficient system. Fiscal retrenchment appears to be the primary reason for freezing LHA rates; delivered through UC this has had the consequence of contributing to homelessness. It is unlikely this is what the DWP intended when they said an aim of UC was to “make work pay.”

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

**5.1.** The Council’s research suggests that some claimants have adapted well to UC and that some claimants welcome features of its new design. However, significant numbers, especially among the Council’s own tenants, have not adapted well. The DWP sometimes argue that evidence from its own surveys that many claimants, or even a majority of claimants, appear to be coping quite well with UC is evidence of the success of the policy. In our view a system that fails 20% or 30% of those it is supposed to help, including some of the most vulnerable, is failing.

**6. How has the world of work changed since the introduction of Universal Credit? Does Universal Credit’s design adequately reflect the reality of low-paid work?**

**6.1.** The DWP’s focus on personal responsibility has gone against an understanding of the world of low-paid work. The rationale for the monthly payment of UC appears to be that most people in the UK are paid monthly and organise their household finances accordingly and that requiring UC claimants to do the same will help prepare them for the world of work. However what we now know is that the world of work for those at the bottom of the income distribution, and those likely to rely on UC, is actually a very different one to that experienced by most working people. In that part of the labour market weekly or fortnightly payment of wages is still predominant and means that UC does not reflect the lived experience of many or perhaps most of those who are claiming UC.

28 February 2020