

NATIONAL HOUSING FEDERATION – WRITTEN EVIDENCE (EUCO126)

The economics of Universal Credit

Introduction

The National Housing Federation represents over 800 housing associations in England, providing two and a half million homes to more than six million people.

Many thousands of housing association tenants are already receiving Universal Credit and our members have extensive experience of working with tenants to make and manage claims and sustain tenancies. Housing associations are a vital part of making Universal Credit a success and making sure that people can manage month to month.

Universal Credit is a ten-year programme to transform the way that people on low incomes are supported to increase their income through work where possible. Many more working age people will soon transfer to Universal Credit as 'Move to Universal Credit' is rolled out across the country. It is therefore in the interests of residents and housing associations to ensure the system works as well as possible. We support the careful approach adopted in the current phase of 'Move to Universal Credit' as it is vital that people are supported and feel in control of the process of moving from the legacy benefit system to Universal Credit'.

The government should build on the successes of Universal Credit so far and continue to make improvements to the system.

Response to inquiry questions

How well has Universal Credit met its original objectives?

Universal Credit was originally intended to streamline the benefits system and provide more incentives for people to enter work or increase their hours, with the ultimate goal of reducing in-work poverty and long-term unemployment. It also sought to achieve savings through the centralisation of administration, moving to a fully digital service and using Real Time Information from HMRC to reduce tax credit overpayments.

There have been several positive changes to the Universal Credit system in recent years which have brought it closer to meeting its original objectives, including the two-week run-on of Housing Benefit, the reduction to the six-week wait for the first payment to five weeks, and the reduction in the maximum level of deductions from the standard award to 30%. We have also seen significant improvements in the delivery of the service with more people now receiving the correct money on time. Feedback from service users has been used effectively to improve the usability of the online service.

Nevertheless, there is still work to do to ensure the system works for all claimants

and landlords. The National Housing Federation's (NHF) most recent quarterly Universal Credit survey of its members found that tenancies paid using Universal Credit were twice as likely to be in arrears as other tenancies, and the average arrears for tenancies paid using Universal Credit were double those paid through other means. This was reasonably consistent with previous surveys.

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

The NHF supports the original objectives of Universal Credit to streamline the benefits system, make it easier for people to make and manage claims, and ensure that work always pays.

Universal Credit is paid a month in arrears, with a minimum five-week wait between application and first payment. The assumption behind this waiting period was that people moving from work onto Universal Credit would have a final month's salary to tide them over the waiting period before their first payment. However, many claimants come from low-paid, part-time or insecure work, which makes putting money aside extremely challenging. These kinds of jobs are also more likely to be paid weekly or fortnightly rather than monthly, so many people moving onto Universal Credit from work will not have a full month's wages to live on.

The original concept of Universal Credit did not look in detail at people's housing circumstances and the system broadly mirrors the entitlement a tenant would have under Housing Benefit.

However, Housing Benefit is administered locally so when Universal Credit began, the Department for Work and Pensions (DWP) had little experience of dealing with housing issues.

Social landlords have built up effective working relationships with local authorities around Housing Benefit, including data sharing and joint work to tackle homelessness and fraud. Given the amount of public money involved and the importance of the benefits system in ensuring that families and vulnerable people can afford a home, we would like to see more emphasis on meeting housing need within the broader objectives of Universal Credit.

What have been the positive and negative economic effects of Universal Credit?

A survey of nearly 3,000 tenants claiming Universal Credit, carried out by nine housing associations in 2019, found that the transition to Universal Credit caused severe financial hardship for a substantial proportion of claimants. More than half of all respondents had struggled to pay for essentials after claiming Universal Credit.¹

A majority of respondents had also borrowed money during the period before their first payment, including substantial numbers who had borrowed from sources of high-cost credit such as payday lenders and doorstep lenders.

¹ National Housing Federation, 'Space to Breathe: Tenant experience of Universal Credit and how to improve it', forthcoming report.

Two-thirds of respondents had an ongoing deduction from their standard award after claiming Universal Credit. Given that the standard award is calculated to ensure a minimum acceptable standard of living, it is very concerning that such high proportions of claimants are having to get by on less.

The government has recognised the negative economic and social impacts of problem debt in the creation of its Breathing Space scheme to provide respite to people in problem debt while they seek support. This scheme will encompass public as well as private sector debts, but Universal Credit advance payments will not be covered until early 2021.²

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

Most working age benefit rates have been frozen for the past 4 years. This means they have not risen in line with inflation and payments have not always covered the cost of living. In April 2020 the freeze will end but benefits will still only rise by 1.7% in line with CPI. This will not make up for the real terms cuts in income that claimants have experienced over previous years.

In particular, Local Housing Allowance (LHA) rates will still fall far short of the real cost of private rents across much of the country. NHF research in 2019 found that 9 in 10 homes are now unaffordable to families claiming Housing Benefit or the housing element of Universal Credit. LHA rates should be restored in line with the bottom 30% of private rents to truly cover the housing costs of low income households.

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

Universal Credit works well for claimants in regular employment, especially those who are paid monthly and who have the digital skills and access to be able to easily manage their claims online. NHF members report that many of their residents appreciate the simplicity and ease of the online Universal Credit system and many are also better off under the new system.

Claimants with more complex circumstances, or a greater need for support, tend to struggle more under the new system, as do people with significant deductions from the award – these could be to pay back an Advance taken at the start of Universal Credit, to payback historic debt to DWP or to pay back money owed to third parties.

How has the world of work changed since the introduction of Universal

² HM Treasury, 'Breathing Space Scheme: Response to policy proposal', June 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/810058/17June_CLEAN_response.pdf.

Credit? Does Universal Credit's design adequately reflect the reality of low-paid work?

The five-week wait for the first Universal Credit payment assumes that people will have a month's salary left after leaving or losing a job. However, low paid work is often more insecure and variable than this assumption would suggest. People working on zero-hours contracts, who are paid weekly or fortnightly, or who are self-employed are all less likely to have a month's salary put aside.

Even after the five-week wait, people whose working hours fluctuate can sometimes see their Universal Credit award vary widely too. When payday falls twice in the same month, the current system sometimes means that payments are reduced or missed the next month. This needs to be addressed to ensure that Universal Credit meets its aim to incentivise people to increase their hours or look for more or better work.

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

To minimise the risk of hardship, rent arrears and ongoing debt for Universal Credit claimants on low incomes, the government should consider:

- **Increasing the support available before the first payment.** It would stop people falling into real hardship if claimants were given more support to claim on time and were able to receive a payment (rather than a loan) before the end of the five-week wait.
- **Reviewing the rules around backdating payments.** Fewer people would miss out for not being able to put their claim in at the immediate point of entitlement. The government should bring forward the planned two-week run on of existing benefits for people moving from the legacy system to Universal Credit.
- **Making sure that work pays for everyone.** Work allowances and taper rates should be set at a level that ensures work always pays. People should not be penalised for working for an employer who pays on a weekly rather than a monthly basis. The minimum income floor rules for self-employed people should be reviewed and consideration given to making the current easement until 2021 permanent.
- **Making better use of resources to support people.** Universal Credit needs to work for millions of people who rely on it. With better data sharing between DWP and social landlords, housing associations could provide extra support to residents who need it. This could help prevent fraud, reduce homelessness and stop situations escalating into crisis. We can build on the success of the landlord portal and be ready for the challenge of managed migration.
- **Consider 'Move to Universal Credit'.** People should not be moved over from the existing system until we know that we have the right systems of support in place and people will receive the correct amount of money on time.

6 March 2019