

THE ADVICE SHOP – WRITTEN EVIDENCE (EUC0003)

The economics of Universal Credit

The Advice Shop is the City of Edinburgh Council welfare rights and money advice service. Our services include a telephone advice line; a central hub and a number of outreach services, which provide access to specialist welfare rights/debt advice. Our welfare rights service includes benefit checks, assistance to claim, to dispute decisions, and representation throughout the appeal process. Our money advice team provide debt advice at all levels, including in-court representation for eviction proceedings. Our Macmillan team provides welfare rights support to people suffering from cancer and their families.

This response is based on discussion with colleagues with experience of assisting numerous claimants in real life situations.

How well has Universal Credit met its original objectives?

Universal Credit was aimed at simplifying the benefits system and to incentivise paid work. It was meant to be cheaper to administer, thus reducing government expenditure.

Simplification of the benefits system – unmet.

It has been clear from many of our clients that Universal Credit is no simpler to understand and claim than the benefits it has replaced. Many of our clients have required assistance to submit a claim, leading to delays and gaps in claim not covered by the more stringent backdating regulations which apply to Universal Credit.

While it may be simpler to make one claim to cover income for a personal allowance and housing costs for example, rather than make separate claims to DWP and local council, the claim process is not made simpler in practice, as housing costs are dealt with separately to personal allowance, and Council Tax is not covered at all which means another claim is required to the local council.

Once in award of Universal Credit, many of our clients struggle to maintain their claim, and require ongoing active support to do so, significantly more support than had been required to maintain their claims for legacy benefits. Thus, an employed client, profoundly deaf with BSL as first language, and limited understanding of written English, now felt 'disabled' because he struggled with the increased communication required to establish and maintain his claim for Universal Credit. Previously, he had managed his annual tax credits review with minimal support.

The increased conditionality of UC means that people with health problems need to interact much more frequently with the benefit than previous, and it is much easier for their claim to lapse. This organisation has dealt with several individuals who are so worried that they would not cope with Universal Credit that they refuse to claim, even though clearly entitled.

Claimants don't know where they stand. Communication with Universal Credit system is as hard for many as with the benefits it replaces. The journal is unreliable – claimants commonly report that they are told by jobcentre staff that 'no one looks at the journal', all important entries need to be followed up with a phone call. Where claims are closed, the claimant is unable to access their journal, including the decision that closed the claim. It is therefore often difficult to get access to a decision to then be able to ask for a reconsideration or to appeal.

The interaction between legacy benefits and Universal Credit was not thought through, leading to successful court challenges and changes to the regulations.

Cheaper to administer – unmet.

We are under the impression that there was a dramatic underestimate of the complexities that would be involved in its introduction and administration, and that it is proving very expensive to implement. The IT system which was intended to do the main work has proved expensive and offers only partial coverage, requiring substantially more human activity to administer claims. Despite this recruitment, case managers hold unmanageable levels of case-loads.

There also appears to be a displacement of cost from government to others, Universal Credit has required substantial, and probably continuing, investment on the part of local authorities, housing associations and third sector organisations, and in some cases friends and family, to support claimants and mitigate the adverse effects of UC. There are likely related increases in court costs from eviction proceedings.

Incentivising work – unmet.

The problems with debt, rent arrears, eviction proceedings, and, in some cases homelessness, would certainly be barriers to work and are evident to our service. We are concerned that some vulnerable individuals will just not claim, putting them in penury and putting them at risk of homelessness. The 63% withdrawal rate for earnings made Universal Credit less effective than first envisaged at incentivising work. We are concerned that self-employment will become less viable for many when they are treated as achieving minimum earning levels. We are concerned that delays in childcare payments makes work more difficult for some parents. Seasonal work will be disincentivised by the application of the surplus earnings rules at £300.

Were the original objectives and assumptions the right ones?

Universal Credit was intended to be 'like work', with a contract and monthly payments, which included money for housing costs. This failed to take into account that many claimants would not have had experience of monthly budgeting, with wages or benefits often received fortnightly. Many of our clients have no experience of needing to set money aside for housing costs. This (and delay in payment), has led to many claimants having difficulty in budgeting, and a rise in rent arrears. Our service has seen a significant increase in the number of eviction cases going to court, fuelled by problems with Universal Credit. Lack of up-front childcare costs has acted as a barrier to work for some parents.

The assumptions were that a super computer would link real time information on wages which would then calculate appropriate UC payments. This was always ambitious, and is not close to being achieved. Significant numbers of employers have not registered for PAYE (a nightmare for claimants).

The original assumption was that claimants would have, or soon learn, basic computer and literacy skills, and be readily able to access the internet. This failed to take into account the number of claimants who do not have English, have limited literacy/computer literacy, or have cognitive or communication difficulties or other health problems. The additional support that is required to enable claimants to make and maintain a UC claim is a direct cost to DWP but also is unrecognised when voluntary sector and local authority resources are taken up. There are also many claimants for whom the online process is simply a barrier to claiming.

There appears to have been the assumption that claimants would have savings or access to some other resource to bide them over when first claiming, or to pay childcare/rent pending their first payments. This is not the case for many, for example, claimants who have been living on benefits or have been in low paid work. For many, claiming UC has resulted in debt, including rent arrears. In many cases they suffer ongoing poverty whilst paying off advanced payments. It is a well-known fact that 5 million people have less than £100 in savings yet it is primarily this group that are expected to manage when moving to UC.

The already poor reputation of Universal Credit will further suffer with changes due to be implemented in April 2020. The planned reduction of surplus earnings levels to £300 will cause hardship to considerable numbers of claimants in a number of situations: who have irregular earnings, are paid weekly, fortnightly, 4-weekly, early for Christmas, or are in seasonal work. Despite its flaws, Tax Credits ironed out the peaks and troughs of earnings, enabling claimants to manage their budget, by mainly calculating income on an annual basis.

The emphasis on conditionality reveals a further assumption, that claimants were work-shy, needed to be beaten with the stick of sanctions to enforce compliance. This disregards the barriers experienced by many individuals. Statistical evidence would suggest sanctions for Universal Credit affect a much higher proportion of claimants than legacy benefits. We note that assisting clients with sanctions is far outweighed by the number of times we have dealt with claimants who have had their claims closed by Universal Credit, which at times appears to be an alternative sanction regime.

Future changes in Universal Credit provisions assume that self-employed have an income equivalent to a full-time minimum wage. This will adversely affect many who experience famine or feast work patterns in self-employment, or those who are 'self-employed' in name only, working at well below the minimum wage.

How should they change?

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

Positive economic effects – we have seen little evidence of this. While more people may be in work now, much of that work is temporary, part-time and unstable so is doubtfully economically positive.

Negative economic effects - the introduction of Universal Credit has caused significant additional cost to landlords (private, Housing Association, and local authority), the court system (substantial increases in rent arrears/eviction cases), social work (emergency section payments). The increased conditionality has meant that many who coped sufficiently well to deal with an annual Tax Credits review form are now disabled, as increased interaction with UC is required to maintain a claim. This service frequently deals with vulnerable adults who are too anxious to claim Universal Credit. It is disappointing that these collateral costs have not been assessed. Universal Credit has been a source of great stress to many of the claimants we have helped, and the impact on health of periods of extreme poverty, debt, and the threat or reality of homelessness has not been costed.

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

Universal Credit has lost many of the incentives for work originally intended, and has in effect seen a net benefit cut for the majority of claimants, with certain groups, such as single parents or people with disabilities, and carers, further adversely affected by the introduction of Universal Credit.

If 'fiscal retrenchment' means austerity and cutbacks to public services, then this has exacerbated the structural problems that UC has caused.

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

The treatment of non-dependents has been positive, and there will be some claimants whose hours vary, potentially allowing them to earn more, as long as they remain in payment of Universal Credit (avoiding the delays and difficulties of reclaims).

Single parents, people with a disability (particularly the loss of Severe Disability Premium) have lost out significantly, and the self-employed will soon be penalised by the assumption of earnings equivalent to the minimum wage. Some claimants will be in a position of claiming, losing and reclaiming Universal Credit on a frequent basis due to fluctuating earnings. Those whose pay is not fixed monthly have problems budgeting as described above.

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?

The world of work has not changed significantly since the introduction of Universal Credit, but designers of Universal Credit chose to ignore existing practices which could not fit simply into the monthly payment pattern in order to 'simplify' Universal Credit administration. Consequently, Universal Credit design does not adequately reflect the reality for many workers have been in low paid, insecure work with variable and unreliable hours, employers who have not

registered for PAYE, who don't issue payslips, and/or pay cash in hand, or where payments are not monthly. Like much of Universal Credit, the design is based on wishful thinking that such problems don't exist, or if they do, that the worker can just up and find a better employer.

For many low-paid workers and those on zero hours contracts, wages can fluctuate but the UC monthly assessment period has a degree of rigidity that cannot align with such fluctuations. This is leaving claimants confused about how much UC they may get each month, causing difficulties with budgeting, with rent arrears often being the outcome. This affects workers who are not paid monthly, who may well be also be adversely affected by surplus earnings rules.

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

To reduce the problems for claimants, we would suggest the following:

The option of direct payments to landlords from the outset of the claim.

The options of fortnightly payments to claimants.

Extending the time scale for recovery of advanced payments, loans etc.

Not requiring reclaims if the award drops to nil for one period.

Not closing claims at any excuse, and having the capacity to issue printed decisions to facilitate reconsiderations and appeals

Payment upfront of child care costs.

A return to work payment payable for 52 weeks for those who have not worked for a prolonged period.

Self-employment – having some form of regular reporting by claimants (monthly or quarterly) to allow Universal Credits to support self-employed workers, rather than imposing the Minimum Income Floor.

Reconsidering the surplus earnings regulations, as making it difficult for employees not paid monthly to budget.

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