

DR STEPHANIE DENNING AND DR CHRIS SHANNAHAN – WRITTEN EVIDENCE (EUC0033)

The economics of Universal Credit

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- We respond to the call for evidence with reference to our Life on the Breadline research, and in particular draw on fieldwork at the Trussell Trust B30 Foodbank in Birmingham where Stephanie spent four months in 2019 meeting and interviewing volunteers and clients.
- Our evidence shows that Universal Credit has not met its original objective of reducing poverty, and that the original objectives of emphasising work as the route out of poverty were problematic because a significant proportion of households in poverty include a person in employment, and Universal Credit claimants are not only unemployed but also people who are in employment, or ill/disabled and unable to work.
- Our evidence also shows that the design of Universal Credit does not adequately reflect the reality of low-paid work due to the five week wait between claimants making an application and receiving their first payment, and payments being monthly and in arrears. We therefore propose changes to Universal Credit on these grounds.

1. How well has Universal Credit met its original objectives?

- 1.1. The [original objectives of Universal Credit in 2015](#) were to “make the benefit system fairer and more affordable; reduce poverty, worklessness and welfare dependency; reduce levels of fraud and error”.
- 1.2. The objective of Universal Credit reducing poverty has not been met. During our research at a Trussell Trust foodbank, a common reason that clients gave for needing to use the foodbank was waiting for their first Universal Credit payment, or having taken an advance payment of Universal Credit and then being left without enough money for food in subsequent months as a result of advance payment repayments. The Trussell Trust’s national statistics corroborate with this: the [three top reasons for people using Trussell Trust foodbanks](#) have consistently in recent years been low income, benefits changes, and benefit delays, and in areas where Universal Credit has been rolled out, after 24 months [foodbank use has increased on average by 48%](#).

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

- 2.1. The aim of a simpler benefit system is commendable, but the original objectives of Universal Credit also emphasised unemployment as a cause of poverty and work as the route out of poverty. This is problematic for two main reasons.
 - 2.1.1. First, Universal Credit combined six benefits for people in different situations, including those already in-work and disabled people unable to work. Therefore there was a flawed assumption in the original implication that Universal Credit is for the unemployed, and that claimants are able to work.
 - 2.1.2. Secondly, the original objective was problematic in assuming that work is a route out of poverty. The [Joseph Rowntree Foundation found in 2018](#) that low-paid and insecure work is one of the main drivers of UK poverty, and the [Social Metrics Commission](#) found in 2018 that nearly 60% of households in poverty in the UK include a person that is working. Being employed is therefore not necessarily a route out of poverty.
- 2.2. Based on this evidence, the objectives of Universal Credit therefore need to be amended to give greater recognition that Universal Credit claimants may not be able to work (for example due to disability), and that work is not necessarily a route out of poverty.

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

- 3.1. There are three main problems with the design of Universal Credit that mean that it does not adequately reflect the reality of low-paid work which were frequently mentioned by foodbank clients during the Life on the Breadline research:
 - 3.1.1. First, the most often cited problem and a reason that many of the foodbank clients who we met gave for using the foodbank, was the five week wait between making an application for Universal Credit and receiving their first payment. This is a problem for claimants whether they are in low-paid work, unemployed, or unable to work. This is because it cannot be assumed that claimants have money available to cover five weeks with little or no other income. This applies both to people applying for state support for the first time, and people switching from the legacy system to Universal Credit. People were therefore using the foodbank because they did not have enough money in this five week period to buy food. Whilst applicants for Universal Credit can apply for an advance payment, another common reason that foodbank clients shared with us for using the foodbank was not having enough money to live on once the monthly advance payment repayment had been made.
 - 3.1.2. Secondly, foodbank clients shared with us the difficulty of being paid monthly and in arrears. Managing a small income is particularly difficult over a month rather than a shorter period – for example two weeks – because of the lack of flexibility in spending when there is little or no money left at the end of the month. Clients shared that this caused considerable stress and affected their mental health, with reflections from

clients including: “you always worry you’re going to run out... it’s a nightmare”.

- 3.1.3. Thirdly, we met clients at the foodbank who were in employment and also recipients of Universal Credit, but needed to use the foodbank due to not receiving their monthly Universal Credit due to miscalculations and miscommunication of their monthly income from work. This could occur when a date on which a person was paid changed, and as a result the communication between HMRC and the Universal Credit calculations falsely showed that their income had doubled in a month – when actually the income amount was the same, but the payment date had changed. The system of Universal Credit therefore does not always adequately reflect the reality of varying payment dates for people in employment.
- 3.2. Finally, in response to this question, we wish to re-emphasise that Universal Credit claimants include people who are unable to work due to illness and disability, and so attention must be given to their circumstances and needs must be given as well as to claimants who are in work or moving into work.

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

- 4.1. The five week wait between a person applying for Universal Credit and receiving their first payment needs to be significantly reduced, and ideally removed. If the five week wait is not removed and advance payments continue to be offered, then these need to be repaid in smaller monthly instalments as default.
- 4.2. If they must be paid in arrears, then Universal Credit payments would be more manageable if they were paid fortnightly rather than monthly.
- 4.3. The communication between HMRC and Universal Credit needs to be improved so that claimants are not penalised when their employment payment dates change and it is falsely interpreted in the Universal Credit system as a person being paid double within a calendar month.

5. In summary, our evidence from the Life on the Breadline research shows that:

- 5.1. The objectives of Universal Credit need amending to recognise that work is not necessarily a route out of poverty, and that claimants are not only unemployed but also people who are employed and people who are unable to work due to illness and disability.
- 5.2. In order to meet the objective of reducing poverty, the five week wait for the first Universal Credit payment needs to be abolished, Universal Credit needs to be paid at the most fortnightly, and communications improved for calculating payments in relation to a person’s employment income.

25 February 2020