

INSTITUTE OF REVENUES RATING AND VALUATION – WRITTEN EVIDENCE (EUC0035)

The economics of Universal Credit

Introduction

1. The Institute of Revenues, Rating and Valuation (IRRV) is pleased to provide this response to the Economic Affairs Committee's inquiry into the Economics of Universal Credit.
2. The IRRV is the professional body concerned with all aspects of local taxation and local benefits administration across the United Kingdom. Institute members, in both the public and private sectors, are engaged in local authority benefits administration, local tax administration, valuation of property for taxation and other purposes, the appeals processes and financial management in local government.
3. The Institute is the only professional body in the United Kingdom that specialises in the law and practice of local authority revenues and local taxation collection together with the income-related benefits that support these processes.

Response to the Inquiry Questions

How well has Universal Credit met its original objectives?

4. Government spokespersons repeatedly state that the purpose of Universal Credit (UC) is to simplify the system and make work pay. This is a considerable over-simplification of the reality. Aspects of UC are undoubtedly simpler, such as:
 - continuity of payments as a claimant moves in and out of work; and
 - for those customers on a fixed contract, with fixed hours, the "one benefit" and the movement to a single net income basis for calculations is easier to understand, compared to moving on and off different benefits.
5. However, other aspects of UC are extremely complex. For those customers who are on zero hours contracts, and those with fluctuating hours and income, the UC process is considerably more cumbersome. The exceptions to UC cause a lot of confusion – e.g. for those in supported accommodation or temporary accommodation; and for people with severe disability premium in their applicable amount who have to claim Housing Benefit rather than Universal Credit Housing Element (UCHE).
6. There are financial difficulties caused by the lack of fit between calendar monthly income calculations and the real earning patterns of many claimants; and by the problematic interaction of UC with localised Council Tax Support schemes. (The latter problem is one of the most frequently mentioned difficulties with UC among the Institute's benefit practitioner membership).

7. Overall, the assertion that UC is a simplified system is not readily reconciled with the considerable complexities that claimants, benefit administrators and advisers actually encounter.
8. As regards work incentives, for some claimants, UC does make work pay/ reduces in-work poverty. Some can be substantially better off on UC, compared to the legacy system – we see gains of £25 per week or more. People in work can increase their hours, reduce their hours and the UC will adapt to their circumstances in real time. It cannot be said, however, that UC claimants in work are automatically better off, in comparison is with the legacy system. There is a pattern of gainers and losers.
9. UC indeed shows a smoother income curve as earnings rise, but it has its own "cliff edges" where entitlement to health and education-related benefits cease (noting here that in Scotland the education benefits cliff edge is higher for those on UC than legacy benefits, and prescriptions and dental and eye checks are free), or mortgage interest loans are lost; and the taper as earnings rise is still (at 63%) very steep and also often interacts with tapers in localised Council Tax Support schemes. The work incentives aspect of UC is therefore also not straightforward.

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

10. Some assumptions were right, but certain ones should be changed so that long term sick/disabled people are not so disadvantaged.

Rental Costs

11. One of the largest and most problematic changes introduced by UC is the absorption of benefit for rent (for most people of working age) into a centrally-administered system. Housing Benefit (HB) is largely governed by centrally-determined regulations, but is administered locally and is therefore close to local housing and homelessness policies. UC is remote from these - and it shows. Close engagement with landlords and tenants and co-ordinated strategies over benefit matters have become much more difficult under UC.
12. Among other things, this contributes to rent arrears. UC is associated with escalating rent arrears and while this is to a great extent a consequence of Treasury insistence on the unnecessary and substantial time lag before first payment (or of debt induced by "advance payments") and as a result of the default payment to tenants rather than landlords, it also flows from the new disjoint between benefit administration and local authority housing responsibilities.
13. It is therefore the Institute's view that HB should continue and should run alongside UC. Ministers may object that a key aim of UC is to amalgamate separate benefits, but when the real world gets in the way of abstract aspiration, practical solutions are needed.
14. There would be certain necessary design changes to be made to avoid anomalies. Notably, tapers should not overlap: claimants should not have UC and HB withdrawn at the same time, as income rises. In order to avoid

this, the UC taper should not apply while there is an HB entitlement. Alternatively, HB could be withdrawn last with UC acting as a passporting benefit for HB – when UC ends HB would deal with the case as a standard claim, much like the approach used in Pension Credits.

15. The existing UC differential work allowances, which are dependent upon whether there is help with rent or not, are regrettably complex; but they could be retained to keep down cost and to even out the treatment of those with and without rental liabilities.
16. No doubt there would be other issues to be addressed to ensure effective co-ordination of the two systems, but suitably detailed consultation between central and local government and other stakeholders could be expected to resolve these.

"Managed migration"/ moving to UC

17. We understand that the Harrogate pilot continues to deal in very small numbers. While caution is no doubt wise, we assume that the DWP is struggling to find a safe means of transferring often vulnerable claimants to UC without the danger of falling out of the system that is inherent in the requirement to make new claims.
18. In our view, the only safe approach would be to review existing claims and convert them to UC claims – an orderly review-based integrated transition.

Disability

19. The Disability Benefits Consortium (DBC) – of which the Institute is a member and which it currently co-chairs – has recently developed costed proposals to restore disability elements that were lost in the transition from legacy benefits to UC, contributing greatly to the large proportion of disabled people who will be worse off under the new system. This research includes analysis of work disincentives for disabled people within the new system. There is a link to the report on the DBC website at:
<https://disabilitybenefitsconsortium.wordpress.com/2019/10/18/dbc-launches-new-report-on-universal-credit/>
20. Alternatively, the PDF is directly available from:
<https://disabilitybenefitsconsortium.files.wordpress.com/2019/10/mending-the-holes-restoring-lost-disability-elements-to-universal-credit.pdf>

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

21. Ministers have claimed that a positive economic effect has been that a greater proportion of people are in work / working increased hours, which helps the economy, although we understand that a causal relationship has not thus far been established. A negative economic effect has been that a significant proportion of non-working people do seem to be worse off; and are relying more on food banks and charitable assistance.

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

22. In our view, UC hasn't been successfully delivered. Councils still have significant HB caseloads. The more complex cases remain on HB. There is still no indication when migration of legacy claims will take place.

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

23. Working claimants appear to have benefited as it seems there are larger amounts of earnings disregarded than in HB; so sick and disabled people have lost out, as they lose some of the extra amounts included in ESA /HB, for example.
24. There are significant issues arising from the complexities of implementing UC and for claimants who are experiencing one or more of the following issues, there is a good chance that there will be uncertainty, delays, financial hardship or loss of confidence in the system.

Benefit Cap

25. Due to lack of data sharing, families affected by the Benefit Cap deduction are put at risk of eviction due to escalating arrears. Where families are identified, local authorities do endeavour to support and guide families into relevant training/ employment.

Court cases

26. Local authorities are experiencing a number of adjournments at court hearings because we do not have sufficient information relating to tenants' UC claims.

Lack of backdating

27. The rules on backdating mean that many vulnerable residents will end up with periods where the rent charge is not covered, leading to rent arrears. This was not a problem under HB, although the backdating period has been reduced.

Alternative Payment Arrangements (APA) Process

28. Benefit practitioners have reported the APA /Rent arrears deduction applications have been lost in the DWP system due to administrative errors. There's been no improvement since the introduction of the Landlord Portal. When the DWP send schedules across, some accounts need to be identified and rectified so that Benefits sections can process the payments. This process can trigger an automated initial rent arrears letter 1 and letter 2 as part of the rent arrears recovery process. Some APA payments come through with no description, hence it is not clear if they are for housing element or APA or arrears deductions.
29. The APA schedule is paid to landlords every four weeks. This makes it very difficult to manage these rent accounts. Some local authorities have requested that APA payments are paid monthly in the same way as they are paid to residents. Concern has been expressed by practitioners that the DWP may be trialling daily APA payments but this would be very

difficult for landlords to process. Weekly or monthly APA payments would be preferred.

Weekly to Monthly Payments

30. The switch from residents receiving weekly HB payments to a monthly payment of UC has caused the level of arrears to build. Residents on UC will build up arrears unless they pay extra to bring their account into credit. The number of residents being switched from HB to UC is increasing. The level of arrears we are seeing is unsustainable. Claimants face additional legal charges added to their rent account when the case is taken to court.

Annual Rent Increase

31. This issue is a problem for the local authority as well as the claimant, in that it poses an ongoing serious risk to local authority income. Residents are expected submit their rent change information to the DWP via their online account. DWP are refusing to accept this data from the landlord. Where claimants either submit incorrect rent information, fail to provide their new rent information or delay notifying the DWP of their rent change, this results in additional rent verification work with landlords, who are required to complete an increased amount of rent verification requests from DWP. Many local authorities do not have capacity to complete multiple re-verifications.
32. Where rents have increased, if the Housing element does not increase arrears will build up. Where there is a rent decrease the DWP may overpay and have to set up an overpayment deduction.

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?

33. Since the introduction of UC an increasing number of claimants are working in low paid zero hours contracts, which can generate erratic working patterns. As earnings fluctuate and are not averaged, this means claimants often don't receive UC payments in the months when their earnings are lower due to higher earnings in the previous month. This makes budgeting difficult to manage, increasing the likelihood of rent arrears.
34. A similar situation can arise when a claimant is paid on a four weekly cycle: they may not receive UC payments in the months when their earnings are lower due to higher earnings in the previous month. Again, this can generate budgeting difficulties for the claimant.

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

35. UC in its present format is associated with escalating rent arrears, which in large part flows from the new disjoint between benefit administration and local authority housing responsibilities. This is deeply unsatisfactory for the claimant renters; and for Councils who have to collect rents. Housing costs should remain fully separate to UC, to be administered by local authorities, whose Officers know, and have the ability to deal with and

support their vulnerable customers. This personal connection is lost with customers on UC.

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