

# **UNION OF SHOP DISTRIBUTIVE AND ALLIES WORKERS (USDW) – WRITTEN EVIDENCE (EUC0036)**

## **The economics of Universal Credit**

Usdaw welcomes the opportunity to submit comments to the Economic Affairs Committee on the Inquiry into the economics of Universal Credit (UC).

Usdaw urges the Government to stop the roll-out of Universal Credit and fundamentally reform the Social Security System to ensure it is a safety net that provides enough money to live on without falling into poverty, debt or relying on food banks.

Usdaw is the UK's fifth largest Trade Union and operates solely within the private sector. The Union has over 405,000 members across many sectors including retail, warehousing, transport, food manufacturing, call centres and wholesale.

We represent hundreds of thousands of members working in low paid industries, such as retail. Workers are often employed in insecure work on short-hours contracts and many of our members rely on one or more elements of in-work Social Security.

The retail sector is the largest private sector employer in the UK, employing around three million people and contributes 11% to the UK economic output. Usdaw works hard to negotiate with employers the best pay deals for our members, most of whom work in retail, one of the lowest paid sectors in the UK economy.

However, the Government has a responsibility to recognise that wages are not always enough to meet the cost of families' outgoings and that it is the responsibility of the state to support working people struggling to make ends meet.

Usdaw has identified significant issues in relation to the monthly payment of Universal Credit. Virtually all shift workers in retail and warehousing are paid four-weekly. The results of a recent Usdaw survey show over 75% of members in receipt of in-work benefits and Tax Credits are paid weekly or four-weekly, with the majority, 67%, paid four-weekly. This leads to 13 'pay days' per year, and therefore one month every year where workers receive two payments in one Universal Credit assessment period. This leads to them either entirely losing or receiving a dramatically reduced Universal Credit payment the following month.

Usdaw feels it is grossly unfair to implement a benefit for working people that does not recognise the working pattern of the majority of low paid workers. Not only is it unjust but a High Court ruling in January 2019 found it to be unlawful, remarking that, correctly interpreted, the regulations mean the Department for Work and Pensions (DWP) can and should adjust its calculation of Universal Credit awards when 'it is clear that the actual amounts received in an assessment period do not, in fact, reflect the earned income payable in respect of that period'. In other words, wages are to be allocated to the month in which they were earned, rather than to the assessment period in which they were received. As it stands the current interpretation of the regulations significantly affects workers' ability to budget and regulate for essential bills and payments.

There are real issues with the design and policy of Universal Credit. The basic principle – to 'make work pay' – has been undermined by a series of cuts to the original design; the introduction of the benefits cap, the reduction of working allowances, plus the removal of the first child premium and two child limit for new claimants, mean a real cut in support for low paid working claimants.

Claimants are also adversely affected by faults in the Real Time information system.

As the managed migration deadline continues to be pushed back, we are concerned that this is in part to avoid paying substantial transitional protection to claimants who will be worse off under the new system.

For the purpose of this submission we will focus on the four questions from the inquiry that relate most directly to Usdaw members. In our view, those are:

- How well has Universal Credit met its original objectives?
- Were the original objectives and assumptions the right ones? How should they change?
- 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?
- If Universal Credit does not adequately reflect the lived experiences of low paid workers, how should it be reformed?

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

One of the key principles of Universal Credit was to 'make work pay'.

Universal Credit has failed to meet this crucial objective, plunging thousands of working people and their families into poverty. This has been exacerbated by a series of cuts to the original design:

- The introduction of the benefits cap
- The reduction of working allowances
- The removal of the first child premium
- Two child limit for new claimants

All of these changes from the original design of Universal Credit means that many working people who are in receipt of benefits are now worse off than they would have been if they had stayed on the old benefits system.

Udaw's own research has shown that a couple with children, earning just above the National Living Wage, one working full-time and one working part-time, will be £1,866 per year worse off under Universal Credit, with single working parents hit even harder.

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

Whilst Usdaw would not disagree with either the objective to reduce the need for people in work to rely on Social Security to lift them out of poverty, or to form a benefits system that specifically makes work pay – the current system of Universal Credit was fundamentally flawed in its design, and has failed to deliver on these objectives from the outset.

In particular, the assumption that 'ordinary' families only have two children is not reflective of many working families. People working in low paid roles to support their family should not be penalised for having three or more children. Quite apart from the fact that the two child limit directly increases and deepens child poverty, the limit enshrines in law the unethical and deeply unfair principle that some children, because of the circumstances of their birth, are less deserving than others of a decent standard of living. The deeper families move into poverty, the harder it is for them to 'work their way out'.

The assumption that working people are paid monthly rather than weekly or four-weekly highlights a lack of understanding of the working arrangements for many hundreds of thousands of low paid workers in the UK economy (please see response to point 4).

**3. 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?**

Current trends in employment, particularly for those in low paid work have seen a shift away from the traditional model of employment contracts detailing all the usual hours of work, to zero-hours contracts or (in Usdaw's experience) short-hours contracts – where workers are given 'flexible' contracts offering minimal fixed hours, but where additional overtime hours are worked as standard (sometimes contractually).

Universal Credit 's use of 'Real Time' information does mean that if a claimant is only offered reduced hours one month, then their Universal Credit payment may increase, however there are also pitfalls:

- The lack of full-time contractual hours can flag as partial unemployment. With the claimant under pressure and possibly facing benefit sanctions if they cannot increase their contractual hours. When in reality they may work close to full-time, but as insecure overtime.

Real Time information requires employers to give timely and correct data to the DWP. When this breaks down, claimants can suffer significant financial disadvantage (please see case studies).

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

As mentioned in the introduction to this submission, the overwhelming majority of retail workers are paid four-weekly rather than monthly.

The DWP's insistence that Universal Credit should be paid monthly to reflect how wages are paid is fundamentally flawed because hundreds of thousands

of British low paid workers are, and always will be, paid weekly or four-weekly.

The results of a recent Usdaw survey show over 75% of members in receipt of in-work benefits and Tax Credits are paid weekly or four-weekly, with the majority, 67%, paid four-weekly. This leads to 13 'pay days' per year, and therefore one month every year where workers receive two payments in their Universal Credit assessment period. This leads to them either entirely losing or receiving a dramatically reduced Universal Credit payment the following month.

In addition to creating wildly fluctuating Universal Credit awards; when two pay cheques are received in one assessment period claimants lose the benefit of one month's work allowance. The work allowance is the amount of earnings claimants with children or with limited capability for work can keep in full before Universal Credit is tapered away at a rate of 63p per pound, worth hundreds of pounds each year. This flaw in the system has denied working parents the additional financial support that they are entitled to, to help them in work and ensure that work always pays.

Udaw feels it is grossly unfair that a benefit for working people does not recognise the working pattern of the majority of low paid workers. While we recognise that this system may not always result in an annual reduction in payments, it significantly affects workers' ability to budget and regulate for essential bills and payments.

## **Case Studies**

Finally, we would like to share two cases which have come about as a result of a piece of joint work between Usdaw and Child Poverty Action Group (CPAG). We believe these help to demonstrate the points we raise.

### **Case 1, Chris:**

*Chris is currently a 'team leader' working in grocery retail. He is contracted to work for 25 hours a week although every week he is required to work additional hours. His hours vary from week to week. He has four dependent children – a son in full-time further education and three children aged 8, 6 and 5. His wife is a full-time student.*

*He first claimed Universal Credit five years ago before which he was in receipt of Child and Working Tax Credits, Housing Benefit and Council Tax Support.*

*His Tax Credit awards came to an end when he became unemployed. This prompted him to claim Job Seekers Allowance. He was informed by the DWP that he was eligible for and would be 'better off' on Universal Credit, which he claimed.*

*"Since day one everything went wrong."*

*It took two months for a payment to be made and when it was finally paid it was less than he had expected. By this time he had fallen into arrears with his*

*Council Tax and his rent. At this time the private landlord from whom he was renting put the rent up hoping that this would force Chris and his family out.*

*He then got a job as a driver on a zero-hours contract. His hours of work and earnings varied widely from week to week. During the Christmas period he managed to earn £1,600. This meant he did not receive a Universal Credit payment in January. This caused him to fall into further debt.*

*He was asked to leave his home by the landlord.*

*He moved into a bigger home for less rent. However, during the move he broke his foot. He lost his job. He informed the Universal Credit that he was unfit for work. His Universal Credit claim stopped and he was told to reclaim. He did not receive a new payment for two months. No rent had been paid during this time.*

*He was evicted again and he and his family had to move in with a family member where overcrowding was a serious issue.*

*He started to work for his current employer in a 'team leader' role. His assessment period runs from the 16th to the 15th of every month. He is paid four-weekly, not monthly, so has 13 pay days each year. Last March/April he was paid twice during the assessment period. He lost his entire April payment of £867. In May his employer did not forward his payslip to the DWP. They submitted this payslip the following month alongside his June payslip – effectively he was paid twice again. This led to his losing his Universal Credit payment again.*

*He had budgeted for a holiday paying a certain amount every month. He was no longer able to make these payments and so he lost the holiday and the money he had already paid out. Eventually his employer compensated him for the money he had lost but this did not compensate him for the loss of the holiday.*

*Furthermore he was originally informed that he was not subject to the benefit cap. Last year he was informed that he was, his award was reduced and then reduced further as the DWP began to recover the overpayment from his current award.*

*He has said that the uncertainty and confusion has put his relationship with his wife under great strain. He is behind with his rent, his electricity and his gas bills. He is behind with his Council Tax which has led to the Local Authority instructing bailiffs. He has no 'credit' given the amount of debt he has accrued.*

*He will again lose almost a £1,000 in February as the assessment period contain two pay days.*

*When he has informed the Job Centre that he cannot afford to lose the entire month's payment when he is paid twice (which after this month will have happened three times in the last 12 months) he is told that it's tough and advised to approach a foodbank.*

## **Case 2, Lee:**

*Lee migrated onto Universal Credit from Tax Credits after he moved in with his partner and her child. Following the move, he and his partner are worse off by around £200-£300 per month.*

*Lee and his partner both work for the same employer, a big retailer, they are paid*

*four-weekly on the same day. Soon after transferring onto Universal Credit, their Universal Credit award in one month was over £450 less than expected. When Lee challenged this, he was informed that there was no record of his earnings for that month from his employer. Despite being able to provide evidence of his pay via a payslip, and his employer confirming that all of their Real Time information in relation to pay is sent to HMRC at the same time, the Job Centre were unwilling to recheck the Real Time information received for Lee.*

*He appealed their decision, but 'a brick wall went up' and there was no willingness on the part of the DWP to review his situation, and his appeal was rejected.*

*Eventually Lee lodged a claim to the tribunal, at which point the DWP accepted their error and paid Lee the £450 owed to him, around nine months after the underpayment. Lee was fortunate that he was in a position to be able to challenge this decision, but for many others the complexities of the system mean they are likely to give up.*

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