

TACKLING POVERTY SERVICE, SWANSEA COUNCIL – WRITTEN EVIDENCE (EUC0046)

The economics of Universal Credit

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

- 1.1 Which original objectives?:
- a) 'Dynamic Benefits, towards welfare that works', The Centre for Social Justice, 2009
 - b) '21st Century Welfare', DWP Consultation Paper, July 2010
 - c) 'Universal Credit: welfare that works', DWP White Paper, November 2010
 - d) Welfare Reform Act 2012
- 1.2 A simpler benefit system has not been met due to:
- a) The length of time UC has been running alongside the 'legacy' benefit system and the gateway restrictions.
 - b) Complications of the legacy benefit system have been 'copied and pasted' into UC.
 - c) The volume of legislation added, (excluding up-rating, regulations relating to passported benefits and commencement orders, Northern Ireland and Scotland), there are at least 95 statutory instruments that have been enacted for Universal Credit since 2013, each adding complexity.
 - d) All benefits administered through one agency was completely lost with the decision to remove Council Tax Benefit from UC.
- 1.3 The stated objective of Universal Credit to make sure work always pays has been lost due to:
- a) The design of Universal Credit preventing it from being 'more accurate and responsive to changes in earnings', High Court ruling in *R (on the application of Johnson and others) v Secretary of State For Work and Pensions [2019] EWHC 23 (Admin)*, which held that the DWP's method of assessing earned income for Universal Credit was unlawful and caused significant fluctuations in the amount of UC received one month to the next.
 - b) The 'standard withdrawal rate for all benefit payments', completely lost by leaving out Council Tax Benefit and continues combined higher marginal tax rates at around 80%.
 - c) The taper being set at 65%, later changed to 63% in April 2017, not the original idea of 55%.
 - d) 'Significantly increase the earnings disregards for all benefit claimants' no longer applies as work allowances (earnings disregards) in Universal Credit were reduced for all and removed completely for claimants without children or limited capability to work in April 2016, although increased in April 2019, it did not restore the pre-cut amount or restore the lost work allowances.

- e) The surplus earnings rules, when 'de minimis' will revert from £2,500 to £300, April 2020 will act as a disincentive to temporarily take on extra hours in work.
 - f) The 'minimum income floor' is a disincentive for UC claimants to become self-employed.
 - g) 'Cliff edges' removing the incentive to increase hours of work, lost completely for families claiming free school meals due to the earnings limit in England and Wales being set at £7,400 pa. This also increases complexity – annual earnings limit for a monthly assessed benefit.
- 1.4 Reduced administrative costs lost due to:
- a) Removing Council Tax Benefit means local authorities continue to need to administer working age benefits.
 - b) Repeated resetting of the timetable
 - c) Ongoing computer issues

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

- 2.1 Although the original objectives to make sure work always pays and simplify the benefit system, whilst not being a cut in benefit levels were right; the final design of UC and the lack of support for people not in a position to work should be changed.
- 2.2 Could revert to including disability and pensioner premiums in UC and restore the level of the disabled child element.
- 2.3 The assumption that sanctions and increased conditionality help people into work has not been proved:
- 2.4 In-work conditionality still remains at the pilot stage, which has now again been extended for the third time until February 2021.
- 2.5 Evidence has shown that sanctions are ineffective at moving people nearer or into work, undermine engagement, can cause people to disengage from the benefit system and increase poverty.
- 2.6 Could change by using the DWP's own evidence from the Work Programme that showed providers who used fewer sanctions had higher positive work outcomes.

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

- 3.1 In-work poverty has increased, statistics from 2019 show that in-work poverty has risen, from 9.9% of workers in 1997/98 to 12.7% and around 56% of people in poverty are in a working family.
- 3.2 Pensioner poverty will increase due to the mixed-age couple rules and lack of a pensioner premium in UC.
- 3.3 The DWP's claim that UC helps people into work faster than Jobseeker's Allowance did was statistically flawed as it compared the situation of the 'live' UC system which only included 'simple' jobseekers and did not include claimants with children, health problems, appealing other benefit decisions, not homeless etc.
- 3.4 We can't specifically pin this down to an impact of Universal Credit but since it went live in Swansea, the recovery rate for Council Tax has dropped.

- 3.5 The way Universal Credit interacts with the Welsh Governments Council Tax Reduction Scheme means that every time the UC award changes, the CTR changes, a new bill with new instalments has to be issued. All the bills are correctly issued and required in law but we have identified citizens who the council has been required to send 10 council tax bills in one year.
- 3.6 As Universal Credit has not met its roll out target dates and the constant roll on of dates makes it very difficult for local authorities to make sensible planning assumptions in its various benefits services as does the reductions in administration subsidy paid to local authorities.

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

Fiscal retrenchment has prevented UC from delivering its objectives by:

- 4.1 The benefit cap prevents claimants from gaining financially for taking on a few hours work (below the exemption threshold).
- 4.2 Cuts to UC housing costs and LHA prevent working claimants escaping poverty due to unaffordable housing costs, including in lower cost housing areas such as Swansea.
- 4.3 The two-child limit penalizes working families on low wages.
- 4.4 The benefit freeze has meant benefits have lost 6% of their value since April 2013.
- 4.5 Cutting the limited capability for work element has removed the equivalent of the disabled worker element in tax credits and removed the extra financial support for disabled people to access work.
- 4.6 The original concept of UC was never to reduce the income of out of work claimants, but this has happened due to the cuts that were implemented into the design of UC in the Welfare Reform Act 2012.
- 4.7 Localizing Council Tax Benefit with an accompanying cut in funding has prevented the main objectives of UC from ever being accomplished.

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

Claimants who have benefited the most include:

- 5.1 Low paid childless, non-disabled workers under 25 who were not eligible for Tax Credits (smaller benefits if would have been eligible for Housing Benefit).
- 5.2 Claimants with relatively high childcare costs (however only gain due to Tax Credit cuts in April 2011, reducing percentage of costs covered from 85% to 70%).
- 5.3 Disabled people with limited capability for work related activity with no entitlement to the severe disability premium.
- 5.4 Claimants who have lost out include:
- 5.5 Claimants who on paper appear to gain from UC, but once deductions for an advance and/or historical tax credit overpayments/other deductions actually experience a drop in income.
- 5.6 Severely disabled people who count as living alone and do not have a carer.
- 5.7 Claimants who are both carers and have limited capability for work related activity.

- 5.8 Disabled students (especially those in non-advanced education) who cannot be paid UC until after being assessed as having limited capability for work.
- 5.9 The many disabled workers who cannot receive any extra support from UC as they are not assessed as having limited capability for work related activity due to the removal of the limited capability for work element.
- 5.10 Disabled workers who cannot benefit from a work allowance because they are not assessed as having limited capability for work (loss of the many different routes into being a disabled worker in Working Tax Credit).
- 5.11 Families with children entitled to the lower rate of the disabled child element.
- 5.12 Mixed-age couples as no pensioner premium in UC and reduced chance of increasing their income through work as only one of the couple is working age.
- 5.13 Lone parents, couples and people with limited capability for work under 25.
- 5.14 Claimants unable to manage an online claim.
- 5.15 Seasonal workers who will be affected when the surplus earnings rules change in April 2020 to the £300 de-minimis.

6. 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?

- 6.1 The design of UC expects most employees to be paid monthly, this does not reflect the reality of low paid work:
 - a) The Resolution Foundation found that of employees who lost their jobs and moved on to UC in 2016/17, 58% came from a job in which they were paid either weekly or fortnightly.
 - b) The DWP expect the proportion of UC claimants paid week or fortnightly to be 30% (compared to 15% of all employees)
- 6.2 Low-paid work has become more insecure, with fluctuating incomes, seasonal work, zero-hour contracts – the premise that employees could arrange payment to ‘game’ the monthly assessment period does not reflect the reality.
- 6.3 Childcare costs usually need to be paid up front, however proof of payment needs to be provided to UC before they can be paid.

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

- 7.1 UC could allow the dates of a claimant’s assessment period to be altered if is too near their monthly pay date and could create the issue of two months’ pay being counted in one assessment period.
- 7.2 The de-minimis in the surplus earnings rules could not be reduced to £300 in April 2020 and could either be permanently left at £2,500 or removed.
- 7.3 The maximum allowed for childcare costs could be increased to take account of increased childcare costs due to increases in the minimum wage, UC paying childcare costs in advance could be considered and there could be no need to upload proof of costs every month if they have not changed.

- 7.4 Work allowances could be extended and increased and the taper lowered to improve in-work poverty and account for exclusion of Council Tax Benefit from the design of UC.
- 7.5 Could remove the housing cost element for rented properties which should be left in Housing Benefit would at least provide more security for tenants whose rent arrears is climbing due to the new system. Also, financial stability for their landlords who are having to deal with those arrears.
- 7.6 Local authorities have been administering housing benefit for almost 40 years, since rental costs were taken out of a universal benefit, and in that period, have developed effective networks and close working arrangements with landlords and advice agencies in their areas. This is missing from Universal Credit which is in effect, starting again from scratch with rental costs back into a universal benefit and learning to deal with all the issues that Local Authorities have been handling effectively for many years.

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