

HOUSING SERVICE, SWANSEA COUNCIL – WRITTEN EVIDENCE (EUC0047)

The economics of Universal Credit

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

The original aim of Universal Credit was to tackle the problems of poor work incentives and complexity within the legacy system of benefits and tax credits. The overarching objectives were to:

- 1.1 *Encourage more people into work and to make even small amounts of work pay and be seen to pay.*
 - a) We have seen limited evidence of UC encouraging people into work. Whilst financially small amounts of work pay, anecdotal evidence suggests that they are not seen to pay due to the disruption that this can cause to a person's UC claim and monthly entitlement.
- 1.2 *Smooth the transition into work by offering a single benefit that removes the distinction between being in and out of work;*
 - a) We have frequently seen situations where a person's hours of work temporarily increase (e.g. for holiday periods) or wages regularly fluctuate (e.g. zero hour contracts) which have resulted in claimants experiencing considerable financial hardship due to UC entitlement being based on the previous months income.
 - b) Many low income households do not have the financial resilience to budget for these lower paid months which can lead to increases in household debt, rent arrears, reductions on essential spending; subsequently causing a negative impact on general health and well-being and ultimately jeopardising an individual's ability to remain in employment.
 - c) Whilst it is possible for more frequent payments (alternative payment arrangements) to mitigate against the impact of changing wages, it does not completely compensate for those who live on the poverty line where higher payments do not mean spare money. It is more likely that it will be consumed by existing household debt or unexpected contingencies.
- 1.3 *Offer a simpler support, with one system replacing multiple systems, therefore reducing administration costs and the propensity for fraud and error.*
 - a) In respect of one system replacing multiple systems it is simpler perhaps for households to make a claim, however the UC system of sanctions, suspensions and stops is complex.
 - b) Stopping and suspending UC has an immediate impact on the household income given that generally the entire income of the household ceases, whereas under legacy benefits some benefits may have continued in the very short term even.
 - c) Sanctions applied to the other elements often result in claimants utilising the housing cost element to fund living expenses leading to rent arrears.
 - d) In respect of Housing Costs the system by which managed payments to landlords and third party deductions are paid is complex and causes confusion. The missed payment schedule leads to a build-up of significant rent arrears and claimants find it difficult to understand that although the

UC journal indicates the housing costs have been paid to the landlord the funds remain with the DWP until the schedule payment date.

- e) Social housing weekly rent charges are less compatible with monthly payment cycles as tenants will remain in rent arrears.
 - f) The current issue in relation to the 53 week financial year 19/20 resulting in claimants receiving less under their UC entitlement than they would have received under legacy benefits is unreasonable.
 - g) We have seen significant numbers of official errors in respect of calculating UC entitlement. Due to the complexities involved, claimants experience significant challenges in identifying errors and challenging incorrect decisions.
 - h) Whilst the introduction of UC may have reduced administrative costs for the DWP it has increased public spending in other areas such as support provided by Local Authorities to households to make and maintain a UC claim, manage their money, deal with associated issues e.g. local authorities providing intensive support, increased pressures on housing services, preventative services and social services in particular. This increase in public spending on public services possibly negates Central Government savings associated with administration costs.
- 1.4 *Tackle poverty both through increased take-up since the system will be simpler and from increased reward from employment for the customer.*
- a) Take-up of UC has been impacted by negative press. We have seen cases where people have intentionally not claimed UC due to being fearful of the impact and struggle to continue with insufficient income from other welfare benefits, often using these to pay for rent.
 - b) Poverty both in and out of work is often caused by errors in respect of UC calculation.
 - c) We still see many households who are in work and claiming UC, yet are facing homelessness due to rent arrears and have large levels of debt resulting in them being unable to get low-cost deals on utilities, further perpetuating debt and poverty.

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

- 2.1 Whilst the original objectives were sound, the design and delivery of the UC system in achieving the objectives is flawed.

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

- 3.1 Negative economic effects on Social Housing Revenue Accounts (HRA) resulting in potential risk to HRA business plans which could in turn impact maintenance of existing housing stock and potential to build new homes.
- 3.2 We have seen many households struggle to manage their money due to the monthly payment cycle, the issue of changing income, the impact of having benefits paid in a lump sum, to those with other financial distractions and spending priorities, the problems created by the full cessation of benefit in one go with sanctions, suspensions and reduced payments. Deductions from benefits for debt, advances and loans from an amount already deemed to be the minimum required to live, create

ongoing problems and continuous poverty for those households subsequently causing negative economic effects.

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

- 4.1 Fiscal retrenchment in respect of the cuts made in the real level of government spending have impacted the ability of Universal Credit to successfully deliver its objectives. UC has passed the financial and resource impacts to Local Authorities, Health Boards, support services etc., which, due to austerity measures, are already stretched in respect of budget and capacity. Therefore delivering the required increase in services to support UC claimants in order that the objectives are UC are achieved is challenging.
- 4.2 Reductions in public spending have also resulted in many public sector employees and out of work households becoming more dependent on lower cost housing as the gap between market rents in the private sector and the Housing Costs under UC becomes wider. The cost of living generally increases at a faster pace than some wages and benefit and changes to the benefit make up itself, mean that some households are now on less income than they were receiving previously.

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

- 5.1 Examples of claimants who have benefited:
- a) In respect of Housing Costs Element (HCE) - those that move to a property with a higher rent charge in the middle of an assessment period – as the change is backdated to the beginning of the assessment period resulting in increased HCE.
 - b) Removal of Spare Room Subsidy. Those joint tenants who are under-occupying a property. The bedroom tax reduction does not apply under UC if the claimant is a joint tenant, except where they form a couple in a household.
- 5.2 Examples of claimants who have lost out:
- a) In respect of Housing Costs - those that move to a property with a lower rent charge or end their tenancy in the middle of an assessment period – as the change is backdated to the beginning of the assessment period resulting in reduced or nil award of housing costs element but remaining rent liability.
 - b) In respect of Housing Costs – those claimants that are charged weekly rent due UC regulations restricting calculation of entitlement over 52 weeks in a 53 week financial year.
 - c) Those that, due to the delay in managed migration, now naturally migrate on to UC and therefore lose out on some of the transitional protections that would have been afforded by managed migration.
 - d) Those who would have claimed dual housing costs under legacy benefits as the regulations are more stringent under UC.
 - e) UC claimants who are now responsible for updating the DWP in respect of a yearly rent increase when under legacy benefits (HB) this would have happened automatically. If a claimant does not inform the DWP

of the rent increase they will continue to be paid HCE at the previous year's rent charge rate.

- f) Those claimants who request a back-date. The backdate system was far more lenient under Housing Benefit in comparison to UC.
- g) Ultimately it is those claimants who are most vulnerable and unable to manage their UC claim without significant support and consequently do not engage with that support that continue to lose out.

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 Since UC was first introduced in 2013 the world of work has changed, in particular in respect of the rapid growth of zero hour contracts. These contracts are extremely challenging to manage whilst claiming UC due to the fluctuations in work related income and consequent impacts on monthly UC entitlement. Universal Credits design does not adequately reflect the reality of low paid work due to the potential fluctuations impacting monthly entitlement.

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

- 7.1 The Housing Cost Element could be paid directly to the landlord as a default position in all cases to ensure that a claimants' tenancy remains secure and is not put at risk by potential not payment of rent.
- 7.2 The 5 week wait at the beginning of the claim could be abolished. Low paid workers or those starting on UC frequently do not have the financial resilience to support their households through this initial period. This leads to advance payments being taken and claimants paying back considerable amounts from their ongoing entitlement, resulting in continued financial difficulties.
- 7.3 Explicit consent could be removed in order to ensure that support services assisting UC claimants can liaise with the DWP to support claimants without a barrier.
- 7.4 Changes in minimum wages and living wage could reflect that there should not be a position where a low paid worker in full time employment does not earn enough to cover daily living costs without assistance of DWP benefits.
- 7.5 Changes could be made to ensure that the system that does not penalise one off bonuses, is immediately responsive to changes in wages.
- 7.6 Could UC be paid alongside wages by the employer to maintain a stable monthly income for those in employment?

28 February 2020