

# **SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS (SFHA) – WRITTEN EVIDENCE (EUC0048)**

## **The economics of Universal Credit**

### **1. Who we are**

- 1.1.** The SFHA leads, represents and supports Scotland's housing associations and co-operatives. We want to see a thriving housing association and co-operative sector providing sustainable and affordable homes.
- 1.2.** Our ambition is that everyone has a good home in a successful community, with a range of high quality, affordable, safe and accessible homes that meet people's changing needs and aspirations throughout their lives.
- 1.3.** Housing associations and co-operatives are central to achieving this, going way beyond the bricks and mortar with social justice built in and delivering from generation to generation.
- 1.4.** We work with government and others to achieve the legislation, regulation and funding necessary for our members to be strong, resilient and independent social businesses housing Scotland.

### **2. Executive summary**

- 2.1.** Universal Credit is not working well for many of the people it is supposed to support. The current system is leading claimants into debt and arrears.
- 2.2.** A major failing is the initial five week wait for first payment. The great majority of those claiming Universal Credit do not have savings put aside to see them through without either getting an advance from the DWP, which has to be repaid or resorting to loans from third parties, which may include illegal money lenders ready to exploit the individual's situation for their own gain. Even with a DWP advance, it will mean that the individual will have repayments taken from subsequent UC payments, which may leave them struggling to cope and possibly in arrears with their rent.
- 2.3.** A second failing is the crudity of the assessment period, which uses a snapshot of the claimant's circumstances on their assessment day to calculate payment, rather than taking into account their circumstances over the course of the month. An extreme example of this is a claimant who dies the day before their assessment date: in such a case they (or their estate) would receive nothing; if they died the day after their assessment date, a full payment would be made.

### 3. Main Report

**3.1.** In response to the questions asked in the call for evidence:

*How well has Universal Credit met its original objectives?*

**3.2.** The Universal Credit Evaluation Framework<sup>1</sup> identified four overarching aims for the benefit:

- Encourage more people into work and to make even small amounts of work pay and be seen to pay;
- Smooth the transition into work by offering a single benefit that removes the distinction between being in and out of work;
- Offer a simpler support, with one system replacing multiple systems, therefore reducing administration costs and the propensity for fraud and error, and
- Tackle poverty both through increased take-up since the system will be simpler and from increased reward from employment for the customer.

**3.3.** The removal of the 16 hour limit on working, that was the case with legacy benefits, is seen as a positive move. Whether by accident or design, the introduction of Universal Credit has coincided with the growth of zero hours contracts. In 2012, before the launch of Universal Credit, around 252,000 were employed in zero hours contracts: that number has swelled to 974,000 by 2019<sup>2</sup>. Of the 2.73 million people on Universal Credit, 0.98 million were in employment.

**3.4.** As the National Audit Office pointed out in its 2018 report, the DWP “cannot isolate the effect of Universal Credit from other economic factors in increasing employment.” There have been, however, disincentives to making work pay put in place. The work allowances for single people and couples without dependants were scrapped as part of the then chancellor’s austerity measures in April 2016, with work allowances for households with children or a member with a disability were cut back severely. Whilst there was been some relaxation in 2019/20 with a partial restoration of work allowances for households with children or a disabled member, singles and couples without dependents still get no allowance.

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

**3.5.** The objectives of universal credit were to provide “an integrated, income-related, working age benefit providing households with a basic allowance topped up by additional components to recognise the needs of families with children, housing costs, disability and health conditions that limit work, and caring responsibilities. It will be available both in and out of work.” Whilst it has combined six benefits into one, it is not the

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<sup>1</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/180879/universal-credit-evaluation-framework.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/180879/universal-credit-evaluation-framework.pdf)

<sup>2</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/february2020>

simplified system its designers had hoped it would be. For example:

- Housing costs for supported accommodation and temporary accommodation had to be taken out of Universal Credit and returned to Housing Benefit.
- Passporting of benefits, such as free prescriptions (in England where there are still charges for prescriptions) and entitlement to free school meals has not been satisfactorily resolved.
- Self-employed claimants have had problems with the minimum income floor.
- The monthly benefit assessment period is too blunt an instrument, especially for those whose employment pays other than monthly. Even for those who are paid monthly, the timing of assessments may also be problematic, as court cases have demonstrated<sup>3</sup>.

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

- 3.6.** From a social landlord perspective, there have been no positive economic effects. SFHA has been surveying members on a monthly basis about the impact of Universal Credit upon their businesses. The consistent response has been that the average arrears on tenants on Universal Credit who are in arrears are consistently higher than for those tenants not on Universal Credit who are in arrears. Over the course of 2019, the average Universal Credit arrear was £599, compared to £336 for the non-Universal Credit arrear. Housing associations have also considered it necessary to increase their bad debt provision, which has had a knock-on effect on rents.
- 3.7.** The surveys have also reflected a greater demand for support and advice, which again adds to pressure on rents.

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

- 3.8.** A recent article by Citizens Advice Scotland<sup>4</sup> highlighted the shortfall in the purchasing power of Universal Credit since its introduction in 2013: a payment for a single person in April 2019 was 88% the value in real terms of the benefit in April 2013.
- 3.9.** Coincident with the benefit freeze has been the growth in the use of foodbanks. The Trussell Trust's State of Hunger<sup>5</sup> report, published in November 2019, points to the growth in foodbank use and that three quarters of users have at least one underlying health issue and two thirds have had problems with the benefit system.

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<sup>3</sup> <https://cpag.org.uk/news-blogs/news-listings/high-court-finds-dwp-unlawful-universal-credit-assessments>

<sup>4</sup> <https://www.cas.org.uk/news/cas-reveals-falling-value-social-security-benefits-calls-action-uk-budget>

<sup>5</sup> <https://www.stateofhunger.org/wp-content/uploads/2019/11/State-of-Hunger-Report-November2019-Digital.pdf>

**3.10.** Perhaps the most significant impact has been on those who are in work. Originally there were in work allowance for single people and for couples without children. Now there are only those with children, or for those where a member of the household has a limited capacity for work due to an illness or disability:

		Pre April 2016 allowance		Current allowance	
		WITHOUT HOUSING COSTS	WITH HOUSING COSTS	WITHOUT HOUSING COSTS	WITH HOUSING COSTS
Single claimant	No Dependent	£111	£111	£0	
	With Dependent	£734	£263	£503	£287
	With Disability	£647	£192		
Couple	No Dependent	£111	£111	£0	
	With Dependent	£536	£222	£503	£287
	One or Both with Disability	£647	£192		

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

**3.11.** If a claimant is in work and is paid monthly and their payment period does not clash with their benefit assessment period, then Universal Credit may work for them. For others the benefits are harder to identify. For example, if an individual is in weekly paid employment, then the level of benefits that they get from one month to the next is uncertain<sup>6</sup> which makes it harder to budget and increases the chance of falling into debt and into arrears.

**3.12.** To mitigate the problems that can arise from the five week wait between a new claim and first payment, the DWP permits advances of up to 100% of the estimated level of a payment. This has created its own set of

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<sup>6</sup> <https://www.gov.uk/government/publications/universal-credit-different-earning-patterns-and-your-payments/universal-credit-different-earning-patterns-and-your-payments-payment-cycles#if-youre-paid-every-calendar-month>

problems, in that the advances tend to include housing costs, which are often not paid on to the landlords by the claimant, leading to them being in arrears and having the burden of repayments and less money to live on. Landlords find out about this too late to be able to give their tenants appropriate advice and support.

- 3.13.** There is also anecdotal evidence from members that illegal money lenders may be coercing claimants to apply for loans in order to service the debts owed to them. Claimants may also be exaggerating their circumstances – for example claiming for non-existent members of their household – in order to get a bigger advance.
- 3.14.** Claimants on legacy benefits who move to Universal Credit as a consequence of a change of circumstance lose out, as there is no transitional protection. For example a single parent under the age of 25 will get the full adult rate under legacy benefits, but will only get a lower, under 25 rate with Universal Credit – despite the fact that the cost of bringing up a young child must be much the same for a parent under 25 as it is for a parent over 25.

*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?*

- 3.15.** The percentage of people on zero hours contracts has more than tripled, from 0.8% in 2012 to 3.0% in 2019. If Universal Credit (and the threat of sanction) is forcing more to take zero hours work, employers may be less inclined to invest in permanent recruitment and staff development, to the long term detriment of the jobs market. The use of zero hours contracts will be mostly at the lower end of wage and skill scales.
- 3.16.** Lower paid work on zero hours contracts may be a contributory factor to rent arrears but equally damaging is the rigidity of the assessment process.
- 3.17.** As stated above, the monthly assessment's inflexibility militates against those who are not paid monthly and may even militate against those who are paid monthly but whose payment period does not fit in with the UC assessment period. The result of this is that UC payments fluctuate, making it hard for individuals to budget and the possibility of arrears more likely. If there is no wage payment in an assessment period (because it fell into the previous assessment period), the claimant will lose the benefit of any in-work allowance for that period.

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

- 3.18.** The two most pressing reforms for low-paid workers are the removal of the five week wait and the reform of the assessment process.
- 3.19.** With respect to the five-week wait, it is unreasonable to expect anyone to get by without any money for that length of time. There is ample evidence<sup>7</sup> that the low paid and unemployed have little or no savings, so

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<sup>7</sup> For example, see

the only recourse is to get into debt, which only serves to perpetuate poverty. The provision of advance payments means that claimants will have less to live on as they will have repayments to make, thus perpetuating the plight claimants may find themselves in.

- 3.20.** The monthly assessment is a blunt instrument, which takes no account of how claimants are actually paid or their circumstances over the course of the assessment period. The assessment needs to take into account the frequency of payment and what period the payment actually covers – for example advance payment of holiday pay for annual leave that is being taken in the next assessment period should be included in the next assessment, not the current one.

*28 February 2020*