

CITIZENS ADVICE SCOTLAND – WRITTEN EVIDENCE (EUC0052)

The economics of Universal Credit

Introduction

Scotland's Citizens Advice network empowers people in every corner of Scotland through our local bureaux and national services by providing free, confidential, and independent advice. We use people's real-life experiences to influence policy and drive positive change. During 2018-19 the network provided advice and assistance to over 272,000 people; or 1 in every 18 adults in Scotland.

DWP funds Citizens Advice Scotland (CAS) to deliver the Help to Claim service in Scotland through Citizens Advice Bureaux (CAB). This service guides people through the Universal Credit initial claim process; offers tailored support to help people use the flexibilities available in Universal Credit and helps people get their first payment on time.

While we understand the committee's request for brevity in response to the inquiry, we have included an annex of cases to accompany many of the points made in this response. CAS feels it is important that the experiences of people on UC - living and dealing with the system - are included to help understand the real and pressing issues of many CAB clients.

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

CAS has long voiced concern that Universal Credit (UC) as currently designed and delivered has failed to meet the objectives set out at the conception of this significant reform to social security.

The UK Government stated '*Universal Credit will radically simplify the system to make work pay and combat worklessness and poverty.*'ⁱ However, we believe there are fundamental flaws with the design and delivery of UC, which should be addressed before full roll-out. In a 2016 report, CAS set out comprehensive recommendations based on our position as a frontline advice providerⁱⁱ. Whilst some of these issues have since been addressed, we were disappointed that many of these early recommendations were not implemented. Subsequently, the failure of UC to meet its original objectives has become more apparent in our evidence base as its rollout has progressed.

Simplifying the System?

A key objective of the UC system was to radically simplify the benefits system. Chapter four of '*Delivering Universal Credit: a better deal for everyone*' noted that many people approach voluntary sector organisations for support and advice to navigate the benefits systemⁱⁱⁱ and that the simplicity of UC could reduce this demand. During the roll-out demand for advice related to UC from the Citizens Advice Network in Scotland has increased. The number of times advice was provided on UC by CAB in 2018/19 more than doubled in comparison to 2017/18; a 106% increase with advice provided 39,286 times. This does reflect the rate of growth in number of people in receipt of UC in Scotland over the same period, but we will continue to monitor the situation over longer term and report trends to DWP.

Digital by default

Claims for UC are designed to be made and maintained online. Alternative offline options should be available, although only in exceptional circumstances. The only part of the UC

system not primarily delivered digitally is the appeals process, which is paper-based and made more difficult by all previous stages being digital. CAB evidence shows a significant minority of people do not have the internet access or digital skills to make and maintain their claims online.^{iv, v, vi} The DWP's own study found that almost half of people (54%) needed some assistance to make a claim online^{vii} and that 1 in 3 (31%) needed ongoing support to maintain their online UC account.^{viii} The consequences of not maintaining a UC claim are stark, resulting in sanction and even claim closure. People with disabilities, mental or physical health problems, learning difficulties, poor literacy skills or who don't have English as a first language often face the most significant barriers to online claim maintenance. (See annex cases one and two). It is not fair, or right, that a person's access to social security is contingent on having access to the digital world. The DWP funded Help to Claim Project is able to support people who need to make a phone claim, but is unable to support with ongoing maintenance.

Citizens Advice Scotland recommends:

- **Alternative, suitably supported offline options to make and maintain claims (such as telephony, face-to-face support and home visits) to be available and actively promoted to all claimants.**

Making Work Pay

A central objective of the UC system was to make work pay. CAS has serious concerns that the current UC system is not supporting low-paid workers, leaving many worse-off compared to legacy benefits. The financial loss experienced by CAB clients and the adequacy of UC payment levels is discussed under question five.

Real Time Information Disputes

Another part of the UC system that is not simple for those claiming are real time information system disputes. CAB experience numerous instances of employees seeking assistance from CAB after their UC payment is not what they expect. Often, this is the result of real time wage information inaccuracies (either on the part on the employer or DWP) leading to an incorrect calculation of UC entitlement. This can cause extreme financial hardship and add more complexity to the UC system. See annex case three.

Work Allowances

Cuts to the original Work Allowance in 2015 significantly undermined the aim of making work pay. Work Allowances allow a person to earn a certain amount without affecting their UC payment. Originally, all UC claimants had a Work Allowance, now only those with limited capability for work or a child/children are entitled. Those without a Work Allowance lose 63p of their UC for every £1 they earn, from the first pound they earn. CAB have seen people not entitled to any UC but who would have been entitled to other payments under the legacy system. In one case a person was almost £2000 a year worse-off under UC than they would have been under Working Tax Credits (see annex case four). Under UC a person earning as little as £505 a month can be entitled to no state support whilst experiencing extreme in-work poverty. Re-instating a Work Allowance for everyone should be a primary focus of the Government if UC is to ever achieve the objective of making work pay.

Citizens Advice Scotland recommends:

- **A Work Allowance is introduced for all who do not currently meet the criteria for the existing Work Allowance**

Taper Rate

The taper rate of 63% also hampers the objective of making work pay - any increase in earnings is almost offset by the concurrent cut to UC entitlement. For example, someone claiming UC with housing costs, working 16 hours per week on minimum wage would have a take home income of £817.49 per month (including UC payment of £237.60). If this person was to increase their hours to 25 hours per week, their take home income would only rise to £917.73 (including a UC payment of £48.77).^{ix} In this scenario someone increasing their working hours by more than 56% would only see a 12% increase in take home income. CAS are concerned the 63% taper rate undermines the ability of UC to make work pay.

Citizens Advice Scotland recommends:

- **The Taper Rate is reduced to allow workers to keep more of what they earn**

Assessment Periods and Fluctuating Incomes

The design of UC assessment periods undermines the objectives of making work pay and a simple benefits system. The UC system was built on the premise that most people are paid a monthly salary, but we know proportionately low-paid workers are the least likely to receive their wages like this. The inflexibility of the monthly assessment period can have severe financial implications. People receiving wages four-weekly, fortnightly or weekly can lose their UC entitlement, despite not actually earning any more from their employment.^{x,xi} This issue, which can also be caused by employers changing pay frequencies (such as paying staff early at Christmas), has led to income shocks for low-paid workers through no fault of their own. In 2019, the High Court found that the way income is assessed through assessment periods is unlawful and could lead to 'nonsensical' situations.^{xii} CAS believe that a person should not be financially worse-off by receiving their wages more frequently than someone paid on a monthly basis.

Assessment periods also lead to fluctuating, unpredictable incomes, making it extremely difficult for workers to manage their finances, particularly those working part-time, seasonally or on zero-hour contracts. For example, a person working a zero-hours contract who is paid fortnightly might receive three wages in one assessment period. Their UC payment is reduced to zero. The following month the person might receive only ten hours work across the whole month; they receive their wages for this but as UC is assessed in arrears, they receive zero UC. This person is left in severe financial hardship until their next UC payment and has extreme difficulty budgeting with both fluctuating wages and UC payments. See annex case five. This is also an issue for people who want to take on work that is not secure. One CAB reported a person taking on a job for three weeks, but with earnings across two assessment periods. This meant the person had no UC for two months, for three weeks work and required foodbank support to feed themselves. The UC system disincentivised this person to take on short-term work again due to the resulting stress and financial hardship.

Combatting Poverty

CAS have serious concerns that UC is failing to meet its objective of combatting poverty. The initial five week wait for payment is causing extreme financial hardship for the most vulnerable in society; those without savings and without family or friends to borrow from. In 2018/19, every week in Scotland, over 4,000 emergency three-day food parcels were distributed to people in crisis.^{xiii} Consistently, CAB are reporting the hardship caused by the waiting period - people forced to use foodbanks, accumulating debt and experiencing detriment to both their physical and mental health.

Citizens Advice Scotland recommends:

- **An immediate reduction to the length of time people must wait for their first payment from five to no more than two weeks**

Advance payments – of up to 100% of a person’s standard payment - are available during the five week wait. However, these are repayable loans, automatically deducted from and subsequently reducing UC payments. CAB are consistently approached by people struggling to live on the inadequate amount of UC they have left after deductions to repay advance payments, including having as little as £190 to live on a month. See annex case six. CAB report cases where the toll of going five weeks without any income is creating stress that means looking for work feels impossible, as people struggle to find money to feed and heat themselves and their children. One CAB reported a case where a person was struggling to survive due to deductions being taken for an advance payment. The DWP advised the person they could sell their car to help with their financial situation, but not having a car would make finding work extremely difficult for this person. This person felt trapped and did not feel supported by UC to find work.

Citizens Advice Scotland recommends:

- **Advance Payments are replaced with non-repayable assessment period payments**

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

CAS supports the aim of a simplified benefits system, which provides a safety net for that is fair, easy to access, pays people accurately and on time, and resolves any issues quickly. The system must be simple to use. CAS has concerns that UC is not as simple as is often suggested and its complexity is causing hardship.

CAS will always support combatting poverty. However, UC has exacerbated and increased poverty and financial hardship rather than reducing it. Previous CAS recommendations could help UC reduce rather than increase poverty, including; ending the five week wait, making advance payments non-repayable assessment period payments, extending transitional protection to those who naturally migrate to UC and ensuring that no-one is worse-off on UC compared to legacy benefit.

CAS supported making work pay and increasing the incomes of the lowest paid workers in society but UC is currently failing to meet this objective. CAS also has concerns the level of benefit for those out of work does not afford an adequate standard of living.

CAS is also concerned that people who are unable to work – not just for disability or ill-health, but caring responsibilities for children or others for example – are often overlooked in the conversation around welfare ‘dependency’. CAS believes a social security system should protect those in low-paid work, who cannot work due to disability or are unemployed from hardship and destitution. Social security should be a safety-net, accessible when needed, providing the means for an adequate standard of living, regardless of a person being in or out of work.

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

CAS is concerned that UC is driving poverty and destitution for some of the most vulnerable in society. There has been an exponential rise in foodbanks across Scotland and

growth in rent arrears. Housing associations across the UK report that 73% of tenants on UC are in arrears, compared to 29% of others.^{xiv} CAB repeatedly tell us the five week wait for first payment is responsible for driving destitution - people have no income to buy food or heat their homes and often accumulate rent arrears whilst awaiting their first payment.^{xv}

CAS is concerned that the method of calculating the minimum income floor for the self-employed causes concern and hardship among some self-employed people. One CAB case involved a self-employed veteran who approached a CAB for advice on claiming UC. A benefit check revealed that moving from legacy benefits to UC would reduce the veteran's guaranteed income by just over £5000. This person was worried they would have to give up their seasonal business when they moved to UC as they would struggle to make enough money to live on over winter. See annex case seven.

The UC advance payment and deduction system is driving a cycle of debt for many CAB clients.^{xvi} Recent figures show the scale of debt accumulated by some of the poorest in society, with £8.99m deducted from people in Scotland in August 2019 to repay UC advance payments. CAS believes those who have nowhere else to turn should not have to take a loan, in the form of an advance payment, when this will cause financial hardship for months. It is not uncommon for CAB to be approached by people with under £200 a month to live on after deductions are made to their UC.

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

Early in the development of the UC system, CAS warned it must not be used as a vehicle for cuts and savings to the social security bill. It is disappointing that the UK Government has made cuts to UC which hinder the delivery of its objectives.

Whilst minimum wage rates remain insufficient to provide an adequate standard of living, the UK Government must use UC payments to ensure an adequate standard of life.^{xvii} CAS has previously called for an increase to the National Minimum Wage to reflect the increasing cost of living^{xviii}.

One of the most concerning developments under the UC system is the significant cuts to life-enhancing and essential premiums for disabled people, specifically the Severe Disability Premium and Enhanced Disability Support. Removing this additional money, paid to help with the additional costs of having an impairment, negatively affects the budgets of disabled people, fuelling rather than combatting poverty.

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

CAS is concerned that people losing out under UC are often the most vulnerable. The five week wait for first payment affects everyone who claims UC. However, it is those who have the least and who don't have family and friends to borrow from or support them, who are the worst affected. CAS evidence shows that advance payments are not a suitable solution. Instead, they compound hardship for many months as advance payments are repaid through direct deductions from subsequent UC payments.

Circumstances where CAS is aware of claimants losing out under UC include:

- › Low-paid workers who are not eligible for a Work Allowance.

- › Low-paid workers often working manual low-paid jobs. Many would have been eligible for Working Tax Credits if they worked more than 16 hours a week but are now unable to claim UC. (See annex case four).
- › People with mortgages unable to claim any assistance with housing costs until they have been on UC for 39 weeks with no earned income in that time.
- › People with limited capability for work: CAB report lengthy waiting times for a Work Capability Assessment after completion of a UC50 form. This results in many CAB clients being worse-off, waiting excessive time, to see if they are eligible for UC's Limited Capability for Work element.

Transferring to UC from the old system will mean a loss of at least £1,000 a year for 1.9 million adults, and a gain of at least £1,000 a year for 1.6 million adults, according to an April 2019 Institute for Fiscal Studies report. CAS is concerned that despite transitional protection for those who go through managed rather than natural migration, the long list of conditions that are considered to reflect a change in circumstance, therefore ending transitional protection, is likely to result in people missing out on required levels of transitional protection.

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?

The world of work has become a more precarious environment where low-paid workers are without the stable income or workplace rights and protections they once had. Recent research by CAS found that only 33% of respondents who relied on insecure work said this type of work was an active choice, whereas over two-thirds said they would take a job with a permanent, full-time, fixed hour contract.^{xix}

Fluctuating Incomes

Designing a social security system to support workers requires an understanding of the complex relationship between earnings, benefits, housing costs and disposable income. The five week wait does not reflect the reality of many low-paid workers when accessing the UC system. The current UC system can create vast fluctuations in disposable income month on month, even where someone has a stable income, due to the rigid rules around earnings within an assessment period.

Re-starting Claims

CAB have also reported the issue of workers with fluctuating earnings – who drop in and out of being eligible for UC – having to make a new claim each time they become eligible. In a digital system with the objective of simplicity this adds an additional layer of complications for low-paid workers.

Surplus Earnings

Surplus earnings are earnings £2500 over the amount where a person loses UC entitlement. Surplus earnings are carried over to the following month, where they count towards a person's earnings. If earnings (including surplus earnings) are still over the amount where payment stops, no UC payment is received. If earnings fall below the amount where payment stopped, the total surplus earnings will decrease. Once the surplus is gone, UC payments resume. Surplus earnings are in place for six months.

A SSAC report (January 2018) noted three main problems with surplus earnings. Firstly, to chip away at surplus earnings, people will have to reapply knowing they will not get a payment. Secondly, some will be better off if they don't apply every month (for example a

seasonal worker could potentially come off UC for June, July and August and reapply in September with no surplus earnings). Finally, the SSAC note that the system was far too complicated.

Forthcoming changes to surplus earnings rules are also likely to affect low-paid workers. Currently the surplus earnings rate is £2500, but this is due to reduce to £300 in April 2020. This will mean more people will have claims stopped when they earn just £300 over the amount at which they can still receive UC. Considering the rise of precarious work, the rules around surplus earnings are especially concerning. Where a person has the opportunity to earn more in one month, knowing this could have lasting financial ramifications for their UC payment but not knowing whether a consistent increase in work is guaranteed, a person could face a difficult financial choice over which they have little control.

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

Throughout this response, we have recommended solutions to make the UC system work better for low-paid workers and for everyone accessing the UC system.

In relation to low-paid workers, CAS recommend:

- › **The introduction of a Work Allowance for all UC claimants.**
- › **A reduction to the Taper Rate to allow workers to keep more of what they earn.**
- › **Reviewing the Minimum Income Floor used to estimate earnings for the self-employed.**
- › **Reforming assessment periods to end the unfairness and unpredictability caused by changing payment dates and fluctuating incomes.**

Considering all UC claimants, including those in work, and the issues discussed in this response, the Government should seek to reform UC by:

- › **Reducing the five week wait for first payment to no more than two weeks.**
- › **Introducing a non-repayable assessment period payment to replace Advance Payments.**
- › **Making alternative, suitably supported offline options to make and maintain claims (such as telephony, face-to-face support and home visits) available and actively promoted to all claimants.**

ⁱ Department for Work and Pensions, Universal Credit: welfare that works (November 2010)

ⁱⁱ CAS, Learning From Testing Times (2016)

ⁱⁱⁱ Department for Work and Pensions, Universal Credit: welfare that works (November 2010)

^{iv} CAS, Disconnected: Understanding digital inclusion and improving access (2018)

^v CAS, Bridging the Digital Divide (2016)

^{vi} CAS, Locked Out: The Smartphone Deficit (2018)

^{vii} DWP, Full Service Survey (2018)

^{viii} DWP, Full Service Survey (2018)

^{ix} Calculated using the Policy in Practice Benefit and Budget calculator available online at <https://www.betteroffcalculator.co.uk/#/free>

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- x DWP, Universal Credit Different Earning Patterns and Your Payments (2019)
- xi CPAG, Rough Justice (2019)
- xii See CPAG, High Court finds DWP Universal Credit assessments unlawful (January 2019)
- xiii Trussell Trust, End of Year Stats, 2019
- xiv Scottish Federation of Housing Associations, Housing Federations across the UK say “flawed” Universal Credit is causing debt and hardship for families in social housing (July 2018)
- xv CAS, Voices from Frontline: the impact of the five week wait
- xvi CAS, Voices from Frontline: the impact of deductions from Universal Credit payments
- xvii Universal Declaration of Human Rights, Article 25
- xviii CAS, Response to the Low Pay Commission Consultation (2019)
- xix CAS, Annual Tracker Survey

Annex A: CAB Cases

CASE 1 (DIGITAL BY DEFAULT)

A West of Scotland CAB reports of two refugees with limited English who attended a CAB for support claiming UC. These two vulnerable people face significant barriers to maintaining their claim and are at real risk of losing their UC entitlement and therefore their means to sustain themselves.

CASE 2 (DIGITAL BY DEFAULT)

A West of Scotland CAB reports of a client seeking support to claim UC after a previous UC claim was closed, which resulted in the person having to beg on the street. The person had a mental health problem, literacy issues and no digital skills, mobile phone or computer access. The person’s previous UC claim had been closed down, most likely due to them being unable to engage with their online journal. The person will struggle to maintain their new claim and is at risk of further sanctions.

CASE 3 (UC Journal and RTI)

An East of Scotland CAB reports of a client who is homeless, has a health condition and is experiencing difficulty managing a UC claim and trying to work. The client is on a zero hours contract, with varying hours averaging eight a week, and receives around £100 of UC a month after her earnings of £150 a fortnight are taken into account. The cost of travelling to work and the jobcentre has left this client feeling they could be financially better off not working. After a real time information dispute regarding incorrectly reported earnings, the client must travel to the jobcentre with wage slips and bank statements, creating a further financial cost to the client due to issues with the UC system.

CASE 4 (WORSE-OFF ON UC)

A West of Scotland CAB reports of a client, seeking financial advice about claiming Working Tax Credits. The client was advised that UC has now replaced the legacy benefit system and a new claim must be made for UC. After a benefit check was completed, the client was advised that the taper rate of 63% when applied to her earnings of £590 per month left £371.27, whereas the client would have only been entitled to £317.82. Therefore, she would not qualify for any Universal Credit. A what if calculation was done and showed that if the client had been able to claim Working Tax Credits, they would have been entitled to £37.52 per week (a total of £1951.04 a year).

CASE 5 (ASSESSMENT PERIOD)

An East of Scotland CAB report of a client who worked for three weeks but had his earnings reported over two separate assessment periods. This has left the client without any UC income for two full assessment periods, meaning three weeks work has had an impact on eight weeks’ worth of UC payments. The client had no alternative but to request foodbank

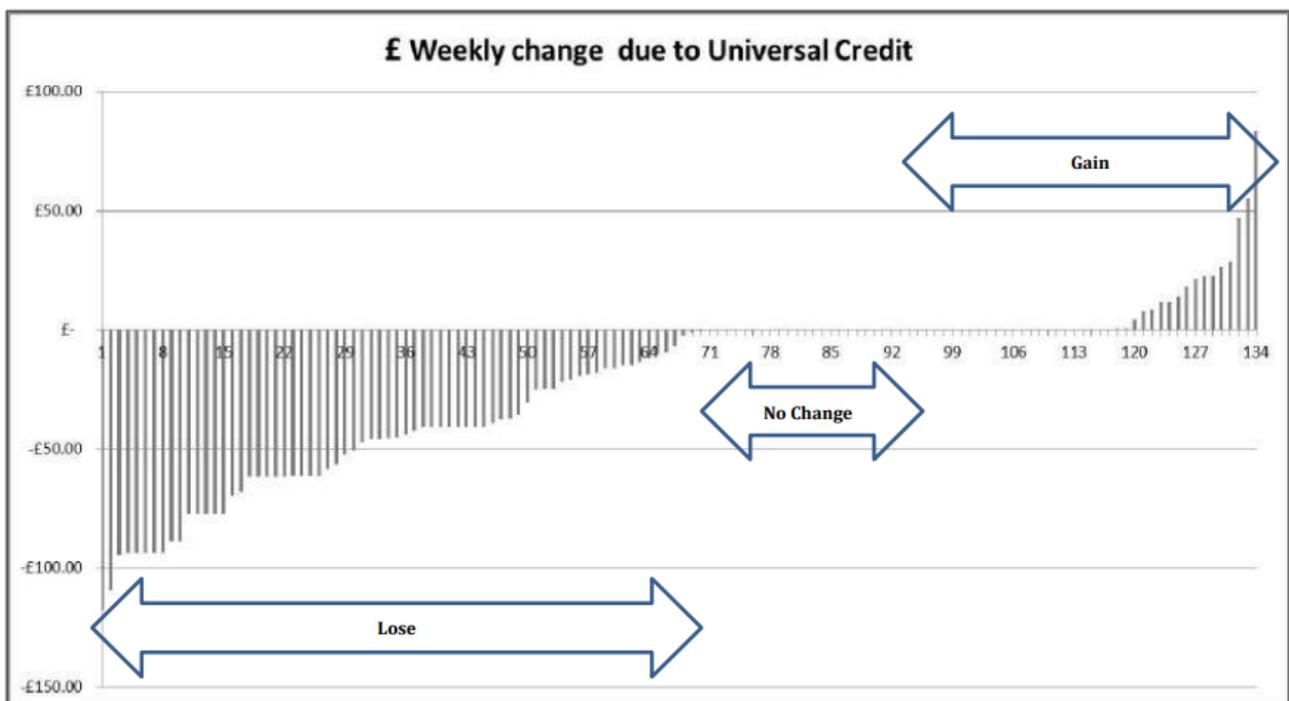
assistance.

CASE 6 (DEDUCTIONS)

A West of Scotland CAB report of a client that has been left with £190 a month to live on because of debts being collected from their benefit. The client has then taken out further advances and a budgeting loan in order to be able to live which in due course is deducted from their benefit which has created a circle of debt which the client cannot get out of. The client is not in a good place emotionally because of this and it is affecting their mental health.

CASE 7 (MINIMUM INCOME FLOOR)

A North of Scotland CAB reports of a client, a self-employed veteran, who was seeking advice about claiming UC. After a social security check it became apparent that moving from legacy benefits to UC would reduce the income of the veteran by a total of £5076.76 a year. This client reported that they would most likely have to give up his business and try and gain full time employment as an employee, as due to the seasonal nature of his business they would struggle to have enough money to live on over winter. Moving to UC will also mean the veteran and their family lose out on income for five weeks with current payments of Child Tax Credit, Working Tax Credit and Housing Benefit (aside from a two-week run-on) immediately stopping.



28 February 2020