RUTH PATRICK, MARK SIMPSON AND UC:US – WRITTEN EVIDENCE (EUC0054)

The economics of Universal Credit

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We warmly welcome the opportunity to contribute to this important inquiry. While some of the objectives of Universal Credit were and remain laudable, the experiences of UC:Us members show that these are not necessarily being achieved, while others may have been misconceived from the outset. Further, the introduction of Universal Credit is inseparable from a range of other reforms affecting both it and the legacy system that have potential to cause great hardship. Like the Committee chair, we aspire to adequate and fair social security provision – in the words of the UC:Us vision statement, **a social security system that treats everyone with dignity and respect, as valued members of society**. The unique expertise of people with experience of Universal Credit has a vital role to play in the realisation of this vision and we welcome the Committee's aspiration to engage with as broad a range of people as possible in its inquiry. Members of UC:Us are very keen to share their experiences of the benefit, and their recommendations for how it might be improved, and would welcome the opportunity to contribute further to the inquiry. There is also much for UK policymakers to learn from the distinctive ways in which Universal Credit operates in Northern Ireland, and indeed Scotland. Our submission focuses on the questions that our research findings are best placed to answer.

Were the original objectives and assumptions for Universal Credit the right ones? How should they change?

The headline objectives of Universal Credit have been to simplify working age social security and to increase the financial gains when transitioning from benefits to paid employment, or increasing earnings from employment.[1] While both are attractive at face value, our research shows that the simplification

[1] DWP, *Universal Credit: welfare that works* (Cm 7957, London: DWP, 2010) https://www.gov.uk/government/publications/universal-credit-welfare-that-works

objective in particular is problematic. Social security is complex because people's lives are complex, and simplification is often easier to promise than to deliver.[2] UC:Us members felt that consolidating six benefits with different objectives into a single benefit whose main focus is on re-employment meant that Universal Credit does not always cater well for people who are not in a position to re-enter paid work in the short term. Some also felt that efforts to simplify had focused on the administration of the system, which sometimes meant transferring administrative tasks from the Department for Communities to the claimant and sometimes forced claimants with little or no computer literacy to use online systems for application and claim management.

These Universal Credit-specific objectives are inseparable from successive governments' broader objectives of reducing social security expenditure and increasing the extent to which the state controls how claimants of various benefits use their time, with a view to speeding transitions (back) into the paid labour market. It is clear that each of these overarching objectives for social security has had a profoundly negative effect on many claimants. They may also be self-defeating. If reducing social security spending results in higher levels of poverty, or deeper poverty – and there is plentiful evidence that this has been the case[3] – then any savings may be offset by increased costs in other policy areas, notably health, education, criminal justice, social services and housing.[4] Further, there has long been evidence that highly conditional working age benefits, even when they promote faster re-employment, can reduce the qualify and sustainability of employment,[5] and there is now growing evidence that sanction-backed conditionality and lack of generosity can themselves act as barriers to employment.[6]

These effects could be seen in UC:Us members' experiences of Universal Credit. For Universal Credit to contribute to realisation of the group's vision of a social security system that treats its users with dignity and respect, some different objectives need to be prioritised. Universal Credit (like other income replacement benefits) needs to be paid at a level that **enables people to meet their living costs** and in a way that **does not trigger debt**. Application and claim management processes need to be **user friendly** and applicants and recipient need **access to the right support** from Universal Credit staff and the

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[2] N Harris, 'Complexity in the law and administration of social security: is it really a problem?' (2015) 37(2) Journal of Social Welfare and Family Law 209 https://www.tandfonline.com/doi/abs/10.1080/09649069.2015.1028155

[3] J Portes and H Reed, *The cumulative impact of tax and welfare reforms* (London: EHRC, 2018) https://www.equalityhumanrights.com/en/publication-download/cumulative-impact-tax-and-welfare-reforms; H Reed and J Portes, *Cumulative impact assessment of tax and social security reforms in Northern Ireland* (Belfast: NIHRC, 2019) https://www.nihrc.org/publication/detail/cumulative-impact-assessment-of-tax-and-social-security-reforms-in-northern

[4] G Bramley and others, *Counting the cost of UK poverty* (York: JRF, 2016) https://www.jrf.org.uk/report/counting-cost-uk-poverty

[5] J Griggs and M Evans, *A review of benefit sanctions* (York: JRF, 2010) https://www.jrf.org.uk/report/review-benefit-sanctions

[6] R Patrick, *For whose benefit?* (Bristol: Policy Press, 2017) https://policy.bristoluniversitypress.co.uk/for-whose-benefit; G McKeever, M Simpson and C Fitzpatrick, *Destitution and paths to justice* (London: LEF/York: JRF, 2018) https://research.thelegaleducationfoundation.org/research-learning/funded-research/executive-summary-destitution-and-paths-to-justice

independent advice sector. These reflect what Universal Credit recipients themselves identified as desirable objectives for the benefit. The voice of experts by experience has a vital contribution to make in developing a vision for social security system and the policies and systems needed for its realisation, as has been recognised by the Scottish Government since devolution of competences in this area,[7] and needs to be heard if there is an opportunity to revise the objectives of Universal Credit.

How well has Universal Credit met its original objectives?

The central objective for Universal Credit, in so far as its introduction can be viewed in isolation from other social security reforms, has been to **promote transitions into and progress in paid employment**. In this respect, Universal Credit was supposed to be transformative by removing financial disincentives built into the legacy system, whereby the speed at which benefit entitlement reduces as earnings increase meant entering or increasing hours of low-paid work could result little or no income gain overall. On paper, Universal Credit achieves this to some extent. Most people do retain more benefit income as earnings from paid work increase than they would have under the legacy system, albeit that the gains are not as great as was originally envisaged and are non-existent for some claimant groups, notably second earners in joint-claim couples.

However, the experience of UC:Us members vividly demonstrates that relatively small financial gains on paper do not transform the individual's perspective on the merits or otherwise of paid work. On the contrary, when in-work claimants looked at their Universal Credit statements they tended to focus on the 63 pence per pound *lost* rather than the 37 pence retained and conclude that they were 'getting done for doing extra work'. It did not help that it seemed to be harder to get clear advice on the financial implications of working *x* number of hours per week than had been the case under income support. Worse, the very features of Universal Credit that are designed to increase the attractiveness of employment compared to the legacy benefits – the increased level of childcare support and monthly changes in entitlement to reflect fluctuations in other income sources – often had the opposite effect because of how they were implemented in practice. Regardless of whether total annual income was higher or lower than under the legacy system, the unpredictability of monthly income from Universal Credit was a serious problem for the household budget. In particular, the one-month lag in Universal Credit payments sometimes meant months with reduced or no benefit income (due to higher earned income the previous month) coincided with months of reduced or no earned income (due to fluctuating hours of work, as typified in zero hour contract jobs). This could leave participants in serious hardship, so that a somewhat lower but more predictable out-of-work income could appear more attractive. Similarly, the enhanced level of childcare support was recognised by one participant as a significant improvement, but for another the wait for reimbursement wiped out any benefit, locking her into a permanent cycle of borrowing from family to pay childcare costs upfront, repaying them

[7] See the reports of the social security experience panels at https://www.gov.scot/collections/social-security-experience-panels-publications/

when the Universal Credit payment came in, then immediately starting to borrow again to pay for the next month's childcare.

For the largest group of participants, Universal Credit had no discernible effect on eagerness to be in paid employment, simply because non-social security factors weighed much more heavily in the decision-making process. Many felt they could not hold down a job at all, or could not increase their hours, because of health issues, age or their children's needs, or said they were trying their best to find (more) work but without success. Others were determined to be in employment regardless of any immediate financial gains, for example because they hoped to increase their hours and earnings once children were a little older or because of the non-monetary benefits. So while Universal Credit could cause problems for in-work claimants, there was no evidence of anyone opting out of the labour market as a result. However, there *was* evidence that stresses associated with Universal Credit – navigating the initial application, constantly checking the online journal for communication from a work coach and above all the grinding poverty and long-term debt experienced because of the five-week wait for a first payment – exacerbated or even caused mental health conditions that acted as the main barrier to employment for several participants.

A final part of this story concerns Universal Credit claimants' obligations to seek work and take part in activities designed to increase their employability. As with fluctuations in income, fluctuating conditionality could be a real problem for in-work claimants, particularly those on zero-hour contracts. A month with few or no working hours could bring about an increase in jobseekeing obligations the following month to as much as 35 hours per week, which had to be fulfilled even if working hours also increased significantly. Pressure from work coaches and fear of sanctions was a real source of stress – some participants compulsively checked their journals in case they missed an instruction and those with significant health problems felt these were not always fully understood by work coaches However, one important finding from the research was that in reality sanctions were *not* the ever-present threat they have been in Patrick's previous, England-based studies. This appears to result from a deliberate decision to adopt a more supportive approach to welfare-to-work policy.[8] The merits of this model deserve closer examination than has been received to date.

Turning to the parallel objective that Universal Credit should **simplify working age social security**, the verdict of an expert in the field that all that has really been achieved is the replacement of six legacy benefits with a single benefit of eyewatering complexity should be noted.[9] Some UC:Us members clearly struggled to understand their claim and there were widespread complaints that the online journal had been poorly designed and that even staff did not really know how the new benefit worked. This led to the recommendation: **Ensure**

[8] Social Security Advisory Committee, 'Young people living independently' (OP20, London: SSAC, 2018) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/709732/ssac-occasional-paper-20-young-people-living-independently.pdf
[9] P Spicker, *What's wrong with social security benefits?* (Bristol: Policy Press, 2017) https://policy.bristoluniversitypress.co.uk/whats-wrong-with-social-security-benefits

that the staff delivering Universal Credit are well trained, and that claimants have access to independent advice.

At the same time, it is clear that in principle at least there should be advantages for claimants if they only have to make one benefit application, rather than multiple applications for support with individual living costs, housing, child-related costs etc. However, this streamlining of the application process is closely bound up with its digitisation. For many UC:Us members, this was not a particular problem – indeed, some preferred online application and claim management. There were exceptions, though. Those who struggled with IT literacy – or literacy more generally – could find the process virtually impossible. These participants could not in any way be described as active participants in their own claim, but were completely dependent on relatives or advice workers to pursue an application.

Even where computer literacy was not a problem, the need to be regularly online for claim management purposes meant unwelcome extra expenditure on mobile data, inconvenient journeys to the library with children in tow or reliance on 'piggy-backing' on neighbours' or nearby businesses' wifi. One participant even reported being sanctioned because a poor 4G connection meant a message to her work coach explaining that she would be unable to attend a scheduled meeting was not delivered. A further complaint was that the potential for simplification was not fully realised, in particular because claimants were often required to upload documents like fit-notes to their journal, then bring hard copies to the Jobs and Benefits office, so that in reality the work involved in managing the claim increased rather than decreased. Another example of Universal Credit running contrary to the simplification objective, in Northern Ireland specifically, was that claimants were required to apply separately to the new domestic rates rebate scheme, whereas support with rates was previously integrated into housing benefit.

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

Universal Credit work allowances and taper rates have been tinkered with since its introduction, but overall have been less generous than initially envisaged, with the result that financial work incentives for claimants are not as great as they might be.[10] However, as noted above, it is far from clear that the extent of immediate financial gain is the decisive consideration when claimants make decisions about labour market engagement.

The findings of our research speak more clearly about the impact of fiscal retrenchment on what has been the overarching aim of social security since Beveridge, that **benefits should enable people to meet their subsistence needs**. This aligns closely with the UC:Us recommendation that **Universal Credit needs to be paid at a level that enables people to meet their living costs**. Changes that affect multiple working age benefits, including Universal Credit, have greatly reduced the ability of social security to support an adequate

[10] D Finch and L Gardiner, *Back in credit?* (London: Resolution Foundation, 2018) https://www.resolutionfoundation.org/publications/back-in-credit-universal-credit-after-budget-2018/

standard of living: the benefit freeze, benefit cap, two-child limit, the soaring (although now falling) sanctioning rate after 2010 and reduction of housing benefit including the under-occupancy penalty for social tenants and local housing allowance cuts for private tenants. UC:Us members renting privately virtually took it for granted that the housing costs element Universal Credit would not cover their rent, with significant top-ups being paid to landlords from other parts of the benefit – even though the personal allowance is barely enough to prevent destitution, and below the destitution threshold for young claimants.[11] None of the participants with mortgages received *any* support with housing costs. There is an urgent need for an across-the-board review of the level of support social security provides – the benefit freeze, benefit cap and two-child limit in particular break the historic link between household need and benefit entitlement.

Features of Universal Credit itself added to households' budgeting problems. The defining experience of the benefit emerging from the research was severe financial hardship flowing directly from the minimum five-week wait for a first payment at the start of a claim. Although claimed to be necessary to properly calculate monthly entitlement, participants saw the five-week wait as a further austerity measure, "to get a free month or something. [To] avoid paying people." As a result, almost every participant started the Universal Credit claim in debt, either because of taking an advance payment – which some felt staff had "pushed" too hard – or because they had to borrow from family, friends, banks, credit unions or other sources. Given the low level of benefit income, repayment of these debts could take a very long time and result in great difficulty making ends meet. In several cases this was exacerbated by further deductions as the transition to Universal Credit brought about overpayments of legacy benefits – which did not always stop promptly at the point of migration – or resulted in overpayments from years previously coming to light. Unsurprisingly, the UC:Us recommendations include **It's time to end the five-week wait** and **Stop Universal Credit triggering debt**.

There are important differences to how Universal Credit works in Northern Ireland compared to England and Wales. These were of real help when it came to surviving on a low income, although not a panacea. A range of supplementary payments offer protection against specific social post-2012 security cuts, of which the only one widely received by UC:Us members (along with more than 30,000 others) wholly offsets the reduction of under-occupying social tenants' housing benefit. Other supplementary payments compensate for losses resulting from the benefit cap or (for a more time-limited period) the transition from disability living allowance to personal independence payment. The contingency fund – non-repayable grants available to new applicants – is potentially of great importance as it could reduce indebtedness at the start of a claim, particularly since recent changes that mean applicants no longer have to accept an advance first, but awareness of it was poor. Later in the claim, discretionary support in a crisis can be sought from a single, Northern Ireland-wide scheme offering both

[11] S Fitzpatrick and others, *Destitution in the UK 2018* (York: JRF, 2018) https://www.jrf.org.uk/report/destitution-uk-2018

grants and loans, although again there were issues around awareness and access.

Other Northern Ireland-specific features do not increase income, but make it easier to stretch a low income across the month: by default, housing costs are paid to the landlord by default and Universal Credit is split into two monthly payments. Most UC:Us members were taking advantage of both of these distinctive payment arrangements and found them helpful, although survival on Universal Credit could still be a struggle. Twice-monthly payments were a better fit with what some individuals had been accustomed to in previous jobs or when on the legacy benefits, or simply helped with budgeting – although this could still be difficult. In an illustration of how tight finances could be, even the move from fortnightly payments (14 days apart) to twice-monthly payments (up to 17 days apart) could be a real challenge.

Other parts of the UK can learn much from Northern Ireland's (slightly) different approach to social security in recent years, and from the forthcoming review of supplementary payments. Key lessons emerging from our research include:

- Claimants should have a choice of monthly or twice-monthly payment patterns and a right to have the housing costs element of Universal Credit paid directly to their landlord.
- While under-occupancy in social housing is much less prevalent in England in particular compared to Northern Ireland, the merits of uniformly applying a reduction to housing support should be reconsidered. There might be a case for disapplying the policy in areas where few smaller social housing units are available, or in the case of individuals who have been unable to downsize. In the interests of equity, additional support for private tenants and owner-occupiers should also be considered.
- Measures should be introduced to protect new claimants from debt. The contingency fund is a possible model, but shortening the initial waiting period would be more effective.
- A single, country-wide system for discretionary support in a crisis – or at least country-wide minimum standards – should replace England's current patchwork of local schemes.
- The DWP should work with the Department for Communities to develop an approach to conditionality that protects the dignity of benefit recipients and promotes trust between recipients and work coaches while allowing for a (genuinely) last-resort penalty if welfare-to-work measures are resisted without good reason.
- The link between benefit levels and household need should be restored, particularly for larger families. Up to now, Northern Ireland has achieved this by not applying the benefit cap to claimants with children, but in the future mitigating the cap will not serve any purpose if the two-child limit remains in place.

The research team and UC:Us members are available to give oral evidence to the Committee if desired.

28 February 2020