

CITIZENS ADVICE GATESHEAD – WRITTEN EVIDENCE (EUC0057)

The economics of Universal Credit

1. This submission has been drafted by Alexander Egan Ph.D – Research and Campaigns Coordinator – with input from the Social Welfare Team at Citizens Advice Gateshead including; Paul Longstaff, Katy Lamb, and Lukas Cowey. The team have extensive experience in advising clients through the process of claiming Universal Credit (UC), and have witnessed first-hand the issues the system can cause. Below is a summary of their experiences relating to the questions posed in the call for evidence.

How well has Universal Credit met its original objectives?

2. The matrix below summarises our experience of where UC has had positive and negative impacts against the original objectives.

Objective	Positives	Negatives
Encourage people on benefits to start paid work or increase their hours by making sure work pays.	<ul style="list-style-type: none"> • Removal of rigid limits pertaining to number of hours worked per week. • If claimant earns a salary through a company's PAYE reporting, variations of earned income can be compensated relatively quickly. 	<ul style="list-style-type: none"> • Detrimental to the self-employed subject to 'minimum income floor rules' – claimants are often literally better off folding their business than have UC treat them as earning 30 x National Minimum Wage. • Well documented problems for salaried employees who get paid every week / two weeks / four weeks, rather than calendar monthly – the system can report an artificial 'spike' in earnings and therefore pay out less UC.
Make it easier for people to manage the move into work.	<ul style="list-style-type: none"> • Existence of negotiable claimant commitments – when used correctly a realistic work plan can be agreed upon. 	<ul style="list-style-type: none"> • Existence of wide-spread view that work coaches are not doing enough to help claimants find work. • Well documented problems reporting child care costs – due to block bookings of child care costs and how that fits in with assessment periods. • Client capabilities and capacities often misunderstood and unrealistic claimant commitments are set, leading to sanctions. • Sanctions create downward spiral of issues including debt, evictions, hunger, financial hardship and stress which do not make it easier for people to look or access job opportunities. Many clients are firefighting these kind of problems and unable to focus on job-seeking as a result.

<p>Simplify the system, making it easier for people to understand, and easier and cheaper for the government to administer.</p>	<ul style="list-style-type: none"> • We presume administering UC claims is cheaper than the net cost of administering the benefits it replaced, but we have no evidence for this ourselves. • For non-complex claimants who do not have complex needs and are IT literate there is a strong argument to be made that applying for and managing one benefit is easier than multiple ones. 	<ul style="list-style-type: none"> • For some claimants who had been on Housing Benefit, the idea and practise of budgeting for rent and paying their landlord is difficult to understand and manage. • Similarly for some claimants who had been on legacy benefits, the idea of budgeting for one monthly benefit payment is challenging. • UC exists alongside many other benefits such as Carer's Allowance, PIP, Council Tax Support etc. Many people are confused about this, and don't claim eligible benefits as they think that UC has replaced all other benefits.
<p>Reduce the number of people who are in work but still living in poverty.</p>	<p>We lack the necessary statistics to comment on how well this objective has been achieved, or not.</p>	
<p>Reduce fraud and error.</p>	<ul style="list-style-type: none"> • Salaried claimants' earnings automatically being reported through PAYE system makes error less likely. 	<ul style="list-style-type: none"> • Well documented cases of fraud and scamming (e.g. https://www.bbc.co.uk/news/uk-48887753). • We have advised several clients who have suffered due to misreported earnings by their employer.

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

3. We believe the objectives and assumptions were sound. However, their execution has led to issues. In our opinion it is not the objectives which should change, but the policies and practices which are in place to implement them, see paragraphs 4, 5 and 6.

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

4. In our experience the five week wait for the first payment encourages borrowing and helps create and perpetuate a cycle of debt. People have to borrow just to get by during that period, and then their ongoing payments are lower to repay what they borrowed, which means they can't budget properly to cover the costs of their outgoings, so they are incentivised to borrow more. On top of that, direct deductions from people's UC can often leave them with next to nothing to live on. An example is a client who was left with £94 to last a month after deductions, the equivalent of £3 per day. Furthermore, paying the housing element, which is essentially a subsidy for landlords, direct to claimants instead of their landlord is suboptimal. If someone who has no money receives their housing element and they have to choose between paying their rent with it, or buying food, or putting their gas or electric on, or buying essentials for their children, they are forced to make an impossible choice.

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

5. In our experience the objective to cut costs on administration, and the benefit freeze, has negatively impacted on the successful delivery of some UC objectives:
 - 5.1 Understaffed JobCentres lack the resources to coach claimants back into work effectively.
 - 5.2 An insistence on digital claims makes the system less understandable or accessible for those lacking digital literacy.

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

6. Young people who still live with their parents and are sufficiently digitally literate to manage their accounts online are those who have benefited most.
Those who have lost out include:
 - 6.1 Anyone who struggles with digital literacy.
 - 6.2 Anyone who is disabled and may otherwise have been entitled to the Severe Disability Premium. We have a client who is profoundly deaf and who lacks digital literacy skills. She struggles to manage her account online, but also cannot make telephone claim because of her hearing difficulties.
 - 6.3 People who struggle to budget and manage their finances independently are disadvantaged and as previously outlined the system encourages borrowing in vulnerable clients and either creates indebtedness or makes it worse.
 - 6.4 Those who are; single, unemployed, under 25, and who have a health condition impacting their ability to work but have been assessed as fit by the system. (*i.e.* they are not in the limited capability for work related activity conditionality group) are particularly negatively impacted. We have several clients in this situation forced to live in shared accommodation, and on very little funds.
 - 6.5 Mixed-age couples, where one partner is of pension age. Previously they would come under pension-age benefits, which are paid at a much higher rate. Now mixed-age couples have to claim UC until the younger partner also reaches pension age. One couple we worked with were moved on to UC when one partner reached pension age. They are significantly financially worse-off than their previously legacy working-age benefits. They will be subject to UC for the next 10 years. They have limited digital capability and are struggling to manage.
 - 6.6 The transition from legacy benefits to the UC system can be difficult. If a client receiving ESA at the support group rate makes a UC claim while they are still entitled to ESA, they will automatically receive the sickness and disability element in UC. However, if they make the claim for UC 1 day after their ESA claim ended, they will lose out on over £300 per month. They will have to wait for a minimum of 3 months before they can be assessed for the sickness and disability element. This has happened to several of our clients and so they have for the first time fallen into rent arrears and have had to borrow money from family to help pay their bills.
 - 6.7 Clients who are sanctioned are forced into unsafe borrowing, or even criminality in order to survive. This is detrimental to clients and does not help clients move into work as in our experience, sanctioned clients are dealing with debt problems, evictions, and difficulty affording food. This has a huge impact on mental health as

well as causing obvious barriers to finding work such as transport, clothing and access to phone internet access.

- 6.8 Clients who have experienced trauma, have addictions or have mental health problems are not well understood by the UC system. One missed appointment can lead to a sanction. Mechanisms for reporting client's vulnerabilities and requesting easements exists and is known to some caseworkers, but many clients in these circumstances without this support are very vulnerable and due to their capacity are not able to challenge sanctions on their own. Many clients face lengthy sanctions due to their difficulties with managing administration.

How has the world of work changed since the introduction of Universal Credit?

7. While the job market has improved since the introduction of UC, many of the new jobs are part of the so-called "gig economy" – zero-hours contracts – and as a result an employed person's earnings can vary over time. Because UC is paid in arrears, calculated based on the amount earned in the previous assessment period, it is difficult for people in this kind of situation to budget their finances from one month to the next.

Does Universal Credit's design adequately reflect the reality of low-paid work?

8. In short, no. For many that rely on UC, wages are too low and benefit payments are too low so a lot of people still struggle. Particularly if they have deductions for debt. The idea of 'topping up' low pay is good in principal, but as indicated earlier the policies and practices in place often hinders successful implementation.

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

9. We believe a more flexible and open approach to alternative payment arrangements; e.g. bi-weekly payments, having the payments split between each member of a couple, housing elements being directly paid to landlords, should be available to claimants in England and Wales. Such arrangements are already readily available to claimants in Scotland. We'd also like to see more use of discretionary funds, particularly when it comes to child care costs, the abolition of the minimum income floor for self-employed claimants, and more flexibility when it comes to earnings in monthly assessment periods – perhaps an 'auto-correct' feature every few months which would correct discrepancies for those whose earning periods don't consistently fit within the assessment periods.

Universal Credit advice at Citizens Advice Gateshead

10. Since April 2019 we have advised 3,416 people with Universal Credit issues at Citizens Advice Gateshead.

10.1 The majority of clients attended seeking help with their initial claim (73%), most of whom came to simply make sure they're applying for the correct benefit for their circumstances and for advice as to how they claim.

10.2 1 in 4 of those seeking help with their initial claim, 527 people, were struggling to manage their UC claim due to limited digital literacy.

10.3 A significant proportion of the clients attending our drop-in service needed our help dealing with deductions and sanctions to their UC payments (11.9%, 407

people), and many of those needed further help from us through financial crisis, such as food bank access and advice in dealing with priority debts, such as rent, council tax and utility arrears.

10.4 In our experience UC can be a good system for many, but it is still causing problems for a significant number of claimants, and we feel this needs to be addressed.

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