

KARBON HOMES – WRITTEN EVIDENCE (EUC0061)

The economics of Universal Credit

About us

At Karbon we build, manage and look after affordable homes for people across the North. And then we go further, we give them the strong foundations they need to get on with life.

Since our formation in 2017, we've focused on delivering our three strategic aims - to provide as many good quality homes as we can, to deliver excellent service to our customers, and to shape strong, sustainable places for our communities.

Our footprint covers the North East of England and Yorkshire, with almost 30,000 homes across diverse communities, all facing different opportunities and challenges.

We always make the effort to understand our customers. We believe that everyone deserves respect and everyone's voices should be heard.

Some customers just need an affordable home, or a way onto the property ladder. Others might need more – financial advice, community services, sheltered accommodation or even training that can lead to a new job. Whatever people need to feel more secure, confident and happy with where they're at, we work hard to provide it.

Thank you for the opportunity to respond to your call for evidence and contribute to the debate on the economics of universal credit and help find solutions that can be presented to the Government.

1.0 How well has Universal Credit met its original objectives?

1.1 The original objectives of simplifying the benefits system and improving work incentives are not being met. In practice, Universal Credit (UC) is causing increased hardship for claimants and increased rent arrears for landlords, especially as it is paid:

- **Directly to the claimant** - rent payments are no longer automatically covered.
- **As a single payment** - money intended to cover the claimant's rent is not separated out, presenting a challenge for many claimants with little experience of budgeting.
- **Electronically** – UC is an online system, people who do not have a computer or smart phone, or who are not IT literate face problems making claims. Plus, all claimants need to have a bank, building society or credit union account.

Monthly and in arrears - new claimants have to wait five weeks from making their claim to receiving their first payment; 'designing-in debt' for those without existing savings to fall back on (our research shows that 88% of our customers have had to make alternative financial

arrangements during this waiting period). Many of our customers on UC describe receiving inconsistent and inaccurate advice from UC helpline and job centre staff.

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

2.1 The original objectives and assumptions were around simplifying the benefit system and supporting people into work. The way that Universal Credit has been implemented is the problem. UC has the potential to improve the welfare system. If UC is properly designed, implemented and funded, and more support is provided to claimants, it would help smooth people's transition into work, respond better to claimants' changing circumstances, and make it easier for them to claim everything they are entitled to. Our response to question 7 discusses how this can be achieved.

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

3.1 UC combines several working age benefits, which has removed some complexity from the welfare system.

3.2 Both Karbon and our customers have primarily experienced negative economic effects of UC. We have 4215 customers on UC (around 17% of our total customer base). This will increase to around 10,000 customers (around 40% of our customer base) when full migration to UC has taken place.

3.3 Due to the claimant having to wait five weeks for the first payment and having the responsibility to pay the housing payment to us as rent, rather than it being paid directly, our customers who are UC claimants have much higher rent arrears. For example, around half of our current tenancy arrears result from UC; the average arrears for a UC claimant is £590, compared to £250 for a non-UC customer; it takes over two years for them to repay their arrears. 72.2% of our customers who are UC claimants are in arrears as opposed to 28.2% of our customers who are not UC claimants.

3.4 In research we undertook with our customers on UC, we found that 53% were characterised as destitute¹ by the Joseph Rowntree Foundation definition which means they could not afford the bare essentials that we all need to eat, stay warm and dry, and keep clean. We have made changes to our services and structures to offset the adverse impact upon claimants' rent accounts but the impact is still felt by them overall

3.5 Managing the impact of UC is resource intensive. There are additional costs for us as a landlord, mainly staff costs associated with benefit and

¹ <https://www.jrf.org.uk/report/destitution-uk-2018>

budgeting advice, income collection, employability advice and support, ICT, data monitoring and mental health advice and support. There are also increased costs associated with resource being displaced from generic services e.g. Housing Officers can spend a disproportionate amount of time managing and supporting claimants e.g. assisting in updating UC online journals.

Case studies

- 3.6 Miss X was living on virtually no disposable income after she had paid her rent, council tax, utilities and other bills. She had to turn to the foodbanks which she felt degrading as she couldn't believe that in this day and age, she would be using them. Worst still, she could only get 3 days food out of 7, so in her words, she had to starve for four.
- 3.7 Miss Y said '*stress, emotional stress, and the wonder of how you are going to pay each bill and keep a roof over your head....to be honest I struggled to get food shopping, I can't afford it for my children, my ex-partner has to get it for them. I am trying to keep on top of the bills, and I can't. I am trying my best*'.

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

- 4.1 Measures introduced to reduce the amount of borrowing and debt accrued since the financial crisis such as the benefit cap have exacerbated the problems experienced by UC claimants and their landlords. They have not helped smooth people's transition into work or supported claimants with their changing circumstances. Households affected by the cap struggled to cope with the loss of income, especially if they had to pay an extra contribution to their rent, causing rent arrears to rise even further.
- 4.2 Each local authority administers a Discretionary Housing Payment (DHP) fund, used to provide support to tenants in need. It is not enough to cover losses due to the benefit cap and the impact of UC.
- 4.3 Although the 'benefit freeze' is shortly coming to an end, after adjusting for price increases, the real level of UC has been cut by around 6%.

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

- 5.1 All households, especially those with dependent children and those without any savings are most affected by UC. Only if a claimant has 'built up' credit on their rent account and regularly pays a month in advance would there be a limited impact on arrears.
- 5.2 Mixed aged couples (i.e. where one partner is a pensioner and the other under pension age) have also been detrimentally affected as they are considered to be a 'working age' couple for the purposes of assessing UC payments. This has affected the health and wellbeing of some claimants and increased the numbers of older people living in poverty. UC is not

designed for pensioners. It includes no extra support for a couple where one member is not expected to work because they are over State Pension age. The younger member of the couple may be subject to work search conditions and they may lose support linked to Pension Credit e.g. discounts on utility bills. Most mixed age couples are better off on the legacy benefit system i.e. claiming Pension Credit and/or Housing Benefit.

- 5.3 Severely disabled people initially found that their entitlement to UC was significantly lower than their previous legacy benefits. It does not include an element equivalent to Severe Disability Premium, or any of the disability premiums currently available. Those with severe disabilities now benefit from UC reforms; they can now stay on legacy benefits (they do not have to move to UC).

6.0 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 Full-time, permanent employment for all with a monthly salary is now a thing of the past. The growth² in the number of people on zero hours contracts and those working in the 'gig economy' means UC design does not reflect the reality of low paid work. Monthly assessment periods used to calculate benefit entitlement do not always align with people's pay cycles. Many working people on UC are paid fortnightly or weekly, not monthly. Those trying to combine non-monthly wages with a monthly benefit can experience significant income fluctuations. If a claimant's earnings change from one month to the next, in a particularly good month, they may earn too much to qualify for Universal Credit. What people are paid and what they need may be two different things if their monthly earnings fluctuate. In effect, UC makes budgeting from month to month more difficult.

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

- 7.1 UC is a completely new way of paying money to people of working age on low incomes. Most people are responsible for paying rent directly to their landlord and for a number of reasons, including waiting for payment and existing rent arrears, the move to UC has resulted in an increase in rent arrears and hardship, especially if they do not have any savings to fall back on.
- 7.2 Claimants can apply to receive some or all their (estimated) first payment in advance. These advance payments are loans (to be repaid within 12 months), meaning claimants may still experience hardship as a result switching to UC but in the form of a long period of receiving reduced payments, rather than a single period without any income at all.

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts>

- 7.3 Currently the housing cost element of UC is paid direct to the claimant. All claimants should be free to choose if they want their housing costs to be paid directly to their landlord from the beginning of a claim (currently Alternative Payment Arrangements are only used if vulnerability and arrears 'triggers' are met).
- 7.4 Current problems with the rollout of UC undermine confidence in the system. We call on the DWP to:
- **End the five-week wait for Universal Credit** (for many households without savings, especially those who have previously received income on a weekly or fortnightly basis, the long wait to receive payment can cause real hardship, debt, rent arrears and food bank use).
 - **Enable all claimants to choose if they want their housing costs to be paid directly to their landlord from the beginning of a claim** (UC claimants have responsibility for managing their money, ensuring that they pay the housing element to their landlord to cover their rent rather than having housing benefit paid directly to their landlord. This leads to rent arrears, budgeting difficulties and can negatively impact on mental and physical health - claimants are often reliant on UC to meet housing and general living costs).
 - **Increase funding for support and advice for Universal Credit claimants** (for example, many of our customers describe receiving inconsistent and inaccurate advice from UC helpline and job centre staff).
 - **Allow more data sharing between DWP and landlords** (all landlords need to be told in advance who is moving onto UC, so they can better support claimants and prevent problems for those struggling with payments or in need of extra assistance to make their first claim).

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