

# NEWCASTLE CITY COUNCIL AND YOUR HOMES NEWCASTLE – WRITTEN EVIDENCE (EUC0063)

## The economics of Universal Credit

### 1. Background

- 1.1 This is a response from [Newcastle City Council](#) and [Your Homes Newcastle](#) (YHN). Newcastle City Council is the unitary authority for the city of Newcastle upon Tyne and provides a range of services that give information, advice, support and care to residents. YHN is the Arm's Length Management Organisation (ALMO) responsible for managing council homes on behalf of Newcastle City Council.
- 1.2 We believe that Newcastle is well placed to respond to two of this inquiry's questions. We were in the first month of the introduction of 'full service' Universal Credit (May 2016) and have 21,955 people on Universal Credit in Newcastle (at [9 January 2020](#)). The [House of Commons Library](#) estimates the Universal Credit caseload rollout to be 52% in Newcastle (in November 2019). This is compared to an estimated 37% in Great Britain. Given this, we have good insight into and experience of Universal Credit and have included examples in this response which are typical local experiences, rather than isolated cases.

### 2. How well has Universal Credit met its original objectives?

- 2.1 We believe that the [objectives](#) for Universal Credit to "simplify the system, making it easier for people to understand" and to "make it easier for people to manage the move into work" aren't always met. The following two examples illustrate this.
- 2.2 *A resident living in a YHN tenancy moved from Employment and Support Allowance (ESA) to Universal Credit. The limited capability for work-related activity element was not transferred to the new claim, meaning that his Universal Credit award was lower than it should have been. In addition, as his partner was in employment their wages were deducted from the entitlement. This left a monthly shortfall of £336.20 in the Alternative Payment Arrangement which YHN were receiving to pay the rent. When he was referred to YHN's Financial Inclusion Team, they identified the error and raised it with the Department for Work and Pensions (DWP) through his online journal. Unfortunately, the DWP didn't initially agree that this was the case. This required further communication with the DWP to illustrate why his Universal Credit award was incorrect, resulting in a delay in resolving the issue. YHN worked with the DWP, gathering information from the ESA team about the previous claim and providing this to the case manager with signed consent from the resident. During this time, YHN's Income Collection Officer was kept updated so that they didn't progress action in relation to the increasing rent arrears. A backdated payment of £2,886.51 was subsequently approved, which would have reduced the rent arrears of £3,584.09 considerably. However, the DWP allocated this to repay one of their overpayments before allocating it to YHN and have, so far, refused to review their decision.*

- 2.3 This example illustrates the advice and support that some residents need to be able to understand their Universal Credit payments and resolve any issues. This isn't only the case when there are errors, such as in the above. Problems with residents moving from ESA to Universal Credit feature regularly in our advice and support services. We are concerned about the potential increase of confusion and fragmentation in the system when the [DWP's estimate of 36% of the 2.09 million households \(involving 2.87 million individuals\) due to move onto Universal Credit are coming from ESA](#).
- 2.4 The following example illustrates the lived experiences of some low-paid workers on Universal Credit and the ongoing support they can require to understand their finances.
- 2.5 *A single 26 year old male lives in supported accommodation and works between 8 and 20 hours per week, washing up in a restaurant kitchen. He has autism, anxiety and depression and receives Universal Credit. He has difficulties understanding his bills and that the amount of benefit received through Universal Credit fluctuates depending on the number of hours he has worked in the previous month. He is considering resigning from his job as he is unable to cope with the instability of his financial situation and not being able to predict his income and plan his budget. He has no savings to cushion any cashflow issues and requires significant assistance from support workers and a Debt Advisor to help him to establish his financial situation and commitments and to support him to plan how to meet them.*
- 2.6 As well as including examples, we think it's important to reflect the insights of residents. We routinely capture insights from residents who our Active Inclusion multidisciplinary team (developed through our [Homelessness Prevention Trailblazer](#) programme) are working with, to support our understanding of their circumstances and to inform local and national policy and practice. The following quotes (with names changed) are representative of the feedback that local services receive from the residents they are supporting, particularly those who are more vulnerable:
- *"Just switched from Jobseeker's Allowance to Universal Credit; haven't got a clue what's going on."* (Gerry, age 51 years old)
  - *"I never know what payments will be received through Universal Credit until a couple of days before the payment is received."* (Rachel, age 45 years old)
  - *"I don't understand Universal Credit at all, I've not been told anything. I don't even know if I'm getting the right amount. They also expect you to do everything on the computer. I really don't know how to work the online claim."* (Di, age 49 years old)
  - *"They make Universal Credit so difficult. I really don't understand why my Universal Credit payments differ each month when my partner's wages are always the same."* (Lisa, age 34 years old)
  - *"We don't understand the system at all. My wife went to the jobcentre to inform them of her pregnancy, they told her we had to claim Universal Credit and this resulted in being benefit capped. ... Managing Universal Credit online is difficult, sometimes we don't receive the text message saying we have to do something and miss out on action."* (Shah, age 30 years old)
3. **What have been the positive and negative economic effects of Universal Credit?**

- 3.1 We believe that Universal Credit has negative economic effects on residents and on local authorities. We appreciate that there are some residents who may be financially better off and there is national information available on this. Our response focuses on some of the areas where Universal Credit brings financial disadvantages.
- 3.2 The increased financial pressure on residents because of issues such as the waiting period and the impact of deductions, including for advances and historical Tax Credit overpayments, are well-documented. There is less attention paid to the cumulative impact of different welfare reforms on individuals, such as the transition required to cope with Universal Credit being added to the financial impact of the "bedroom tax" and the transition to other newer benefits, such as Personal Independence Payment (PIP). The following example shows this and illustrates the limited options that are often available to residents, and the services supporting them, to deal with increasing problem debt, which can be one of the consequences.
- 3.3 *A 49 year old single female living in a YHN tenancy was referred to Money Matters, the council's debt and budgeting team. She had retired from work because of ill-health due to disc and muscle problems in her neck and lower back, arthritis and depression. She receives Universal Credit but is subject to the "bedroom tax", meaning that the housing element of her award is reduced by 25% (£90.55 per month). Prior to her first appointment she had made a claim for PIP, but this was not yet in payment. It was more than four months before she received her PIP award, made up of the lower rates of the mobility part (£23.20 per week) and the daily living part (£58.70 per week). Prior to her retirement she had been dealing with her debts through an Individual Voluntary Arrangement, but this had failed due to her decrease in income. Due to the following deductions from her Universal Credit award, totalling £127.12 per month (40% of her standard allowance), she was unable to afford any payments towards her debts and was struggling to meet her basic needs (deductions were: Universal Credit advance – £49.36, Council Tax arrears – £31.78, Tax Credit overpayment – £18.36, rent arrears – £15.89 and DWP benefit overpayment – £11.73). The Debt Advisor applied for a Discretionary Housing Payment, which was awarded at £20.90 per week for six months to cover the shortfall in her rent caused by the "bedroom tax". This award was made conditional on her continuing to work with Money Matters to reduce her outstanding rent arrears. Due to her low income and the large number of creditors she owed, she had limited options for dealing with her debts and she opted for an insolvency option, a Debt Relief Order (DRO), which was the only realistic solution for her situation. The Debt Advisor applied for the DRO for her, which was approved and wrote off 22 debts totalling £18,643.*
- 3.4 This example also highlights the impact of the modification of Tax Credit legislation for residents claiming Universal Credit, which results in historical Tax Credit overpayments being deducted automatically from Universal Credit payments. We understand the principle of people repaying their debts. However, we are concerned about the increasing negative economic impact that this will cause for residents, and the services supporting them, in Universal Credit 'managed migration', particularly given the ease with which Tax Credit overpayments can occur and the scale of their recovery and detrimental impact on residents' income. [The DWP estimate that, by the end of the 'managed](#)

[migration' process, 54% of the 2.09 million households migrated \(involving 2.87 million individuals\) will have come from Tax Credits.](#)

- 3.5 This financial pressure increases for single residents who are aged under 25 years old as they receive £66.05 per month less than those who are aged 25 years old or over under Universal Credit; a sizeable proportion of their £251.77 standard allowance.
- 3.6 Universal Credit also has a negative economic effect on local authorities. The five-week wait for the first payment is still at the core of many of the problems experienced locally and nationally. What is less well-documented is the consequence of this on other public services. In Newcastle, the [Crisis Support Scheme](#) is the replacement for the Crisis Loan element of the Social Fund, which was devolved to local authorities in 2013. In [2018-19](#), Newcastle City Council made 587 Crisis Support Scheme awards totalling £37,468 to residents who were either waiting for their Universal Credit award to be paid or had received an incorrect award with less money than they were expecting. This was a significant proportion of the £100,824 annual budget and reduces the council's ability to provide food, clothing, fuel for heating and expenses for emergency travel to cover other short-term periods of crisis or disaster. In 2018-19 there were also 469 rejected applications to the scheme related to Universal Credit.
- 3.7 Newcastle City Council and YHN are continuing to provide Universal Credit Assisted Digital Support and Personal Budgeting Support to supplement the more limited 'Help to Claim' service that the government funded Citizens Advice to provide for one year from 1 April 2019, when they changed the funding from an arrangement with local authorities to a national contract with Citizens Advice. This contract only includes support up to the date of the first Universal Credit payment and doesn't include the budgeting support or online support to manage the Universal Credit claim that some, particularly vulnerable, residents need to support their transition to such a fundamental change to the way that benefits are delivered. From 1 April 2019 to 31 December 2019, Newcastle City Council and YHN provided 695 instances of Universal Credit Assisted Digital Support and 680 instances of Personal Budgeting Support to Newcastle residents, which wasn't funded by the government. Not providing this support would result in vulnerable residents having problems managing and maintaining their Universal Credit claims and meeting their financial commitments, increasing their risk of destitution and homelessness which, in turn, would increase cost pressures.
- 3.8 In addition to supplementing the more limited government funded 'Help to Claim' service, there is also limited communication to local authorities about the future of such support and the plans for Universal Credit 'managed migration'. In response to a parliamentary written question about the national funding of Citizens Advice to provide 'Help to Claim' from April 2020, the [government said on 17 October 2019](#) that they "*have begun evaluation of the service and will use this to inform decisions about the future of the service beyond March 2020*". In relation to 'managed migration', local authorities don't know when it will be introduced and whether it will be introduced by claimant group or will take place by geographical location, as was the case with the previous rollout of both the Universal Credit 'live service' and 'full service' and welfare reforms such as the lower benefit cap.
- 3.9 Newcastle's work with Jobcentre Plus provides an opportunity to build on a partnership working model of identifying and supporting residents who are at risk. This is included as a commitment in the government's [Rough Sleeping Strategy](#)

(August 2018) – “*share as best practice the innovative partnership work between Newcastle Jobcentre Plus and Newcastle Local Authority, an early adopter of the Homelessness Prevention Trailblazer Programme across the whole Jobcentre Plus network*”. For ‘managed migration’ we would like to extend our work with the DWP to identify vulnerable residents so that we can support those being invited to claim a new benefit, as well as minimising the cost and the additional risks attached to residents not responding in the way that they are expected to. Taking a collaborative planned approach would provide an additional safeguard, which is particularly important given that the requirement to make a new claim is unique for moving claimants from one benefit to another.

3.10 Universal Credit also increases the negative economic effect on local housing authorities who have retained the provision of council housing, such as Newcastle, due to the impact on the Housing Revenue Account. YHN is the ALMO responsible for managing council homes on behalf of Newcastle City Council. At 31 January 2020:

- There were 7,186 YHN tenants on Universal Credit
- There were 2,237 Alternative Payment Arrangements in place for those tenants who can’t manage the single monthly payment of Universal Credit
- YHN tenants on Universal Credit owed rent of £3.84 million
- £1.55 million of the above rent arrears are attributed solely to Universal Credit

3.11 As well as having an Income Recovery team, YHN also have Financial Inclusion and Support and Progression teams which provide a significant amount of advice and support to tenants claiming and maintaining Universal Credit claims. They also have staff collocated in Newcastle’s jobcentres to identify residents who require additional support at the earliest stage, and they work closely with council staff in Community Hubs and Libraries and Money Matters to identify and provide Assisted Digital Support and Personal Budgeting Support to vulnerable residents who need it. Despite all of this proactive preventative work, YHN’s rent collection rate for tenants on Universal Credit is 88.16% in the first year after their Universal Credit claim. This increases to 95.34% between 12 and 24 months after the claim and to 99.26% after 24 months. Without the specialist advice and, often intensive, support provided to residents, we believe that these rent collection rates would be lower and that the rent arrears would be higher. At 31 January 2020 the rent collection rate for tenants not on Universal Credit was 99.27%.

3.12 The increasing rent arrears related to Universal Credit increase the risk of homelessness for residents. It is worth noting that not all landlords want, or are able, to have the same level of forbearance that the above numbers show. As YHN manage council housing on behalf of the council, they share the value of homelessness prevention and understand the consequence of increasing evictions for rent arrears for local authority budgets. If evictions increase, so do local authority cost pressures due to having to provide temporary accommodation and, potentially, social care. This is in addition to the detrimental impact on residents themselves. Our place-based approach has resulted in:

- the highest proportionate rate of homelessness preventions of any of the Core Cities
- a 71% reduction in evictions from YHN since 2008

- maintaining a record of zero households being placed in bed and breakfast accommodation to fulfil our statutory homelessness duties since 2006. This is in contrast to a significant increase in the Core Cities' average since 2013-14

3.13 We believe that implementing such a significant change in the benefits system at the same time as trying to create a cultural behaviour change around residents' personal responsibilities is too ambitious and that flexibilities should be built in to support residents to adapt to Universal Credit, particularly given the group of residents that are due to be impacted by 'managed migration'. Universal Credit has negative economic impacts on some residents and on services supporting them, such as local authorities. The work to mitigate the negative effects are contributing to increased financial pressure at a time of significant budget savings due to austerity. This increases the case for funded proportionate partnerships to support residents to comply with what they need to do to continue to receive their benefit entitlement, and for recognition of the impact and consequences of Universal Credit for residents, particularly those who are vulnerable, and for the local state.

*28 February 2020*