

# **CITIZENS ADVICE SHEFFIELD – WRITTEN EVIDENCE (EUC0076)**

## **The economics of Universal Credit**

### **Executive Summary**

Whatever profile of claimants the Government had in mind in designing Universal Credit (UC), it was not the people that Citizens Advice Sheffield works with, though most are benefit recipients. Due to the nature of our service, we see only the downside of UC, but we maintain that the benefit can only be deemed successful if it works for people such as our clients – and it does not. The system appears to have been designed to include all the troublesome features of the legacy benefits it replaces, then to add some even more challenging features for the poor and vulnerable people who rely on it.

### **Our interest in the inquiry**

Citizens Advice Sheffield (CAS) is one of the largest local Citizens Advice services in the country, providing free, impartial advice in 16 locations around the city, including foodbanks and hospitals. In the financial year to date we have so far advised 23,058 people (a significant increase on previous whole years), of whom 7,277 asked primarily for help with Universal Credit (UC) though we know that UC is often a significant underlying factor for other clients whose 'headline' problem concerns, for example, debt or housing.

We run the Help to Claim service through a DWP grant, supporting people through their initial UC claim up to receipt of their first correct payment, and have so far worked with 5,871 clients since the service began in April 2019.

CAS is active in campaigns and social policy, locally and nationally, and a senior member of our management team is currently seconded as a national Best Practice lead on UC and Help to Claim.

We are concerned with the 'economy' of individual and family finances and well-being, as well as the wider impact on our community. This submission draws on our rich, detailed evidence base of clients' real-life experiences of UC, and on our original research exploring the impact of UC in greater depth, including our 2019 investigation into how UC was – or was not - helping part-time workers to increase their income and thus decrease their reliance on benefits<sup>1</sup>.

### **How well has Universal Credit met its original objectives?**

We understand the original objectives to be those set out in the UC Business Plan on the .gov.uk website:

To encourage people on benefits to start paid work or increase their hours by making sure work pays

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<sup>1</sup> 'Does Universal Credit help work progression?' (Citizens Advice Sheffield, August 2019) <https://citizensadvicesheffield.org.uk/wp-content/uploads/2019/08/Universal-Credit-and-work-progression-final-report-Aug-2019.pdf>

We would not describe the UC regime as “encouragement”, and our experience shows that our clients are far from convinced that UC can make work pay in a way, or to an extent, that legacy benefits did not.

In strictly financial terms, under legacy benefits all claimants of means tested benefits had “work allowances” in the shape of “disregarded earnings”- but these are only to certain groups under UC. The ‘taper’ which reduces UC allowances according to the level of earnings (at 63%) is similar to legacy benefits but provide little incentive. As one client put it to us- ‘every pound that I get paid from this company they take 63 pence...they get more than I do’. Also, debt repayment reductions are taken from UC at a much higher rate than in the legacy system (although the amount of benefit paid is no higher than legacy benefits). Financial incentives for disabled people to work have been removed (“permitted work” provisions and Disabled Persons Tax Credit). While childcare is assistance to some claimants, the requirements to pay fees upfront and claim back makes it unaffordable in practice.

The more positive “encouragement” and support promised under UC through Jobcentre Plus Work Coaches appears to be of variable availability and quality, as reported by our clients. Often they appear to clients not to have the time or knowledge to help – though, by contrast, other clients are happy to report excellent, well-informed, empathetic treatment. Such support should not depend on the luck of the draw. We would like to see *every* client offered accurate ‘better off’ calculations, including eligibility for passported benefits such as Free School Meals, to confirm whether work would indeed pay for them, as well as help to identify and pay for childcare provision and exploration of the potential to use the Flexible Support Fund to cover costs of getting work and increasing earnings.

#### To make it easier for people to manage the move into work

We can see the administrative advantage of maintaining one claim that covers both in-work and out-of-work benefits, so that the transition should be smoother than on legacy benefits. Beyond the mechanics of benefit payment, however, UC is falling short on the proactive measures – such as ‘better off’ calculations, identification of childcare provision and funding, explaining access to passported benefits, use of the Flexible Support Fund - that should support and encourage people to move into work in a positive and confident way.

#### To simplify the system, making it easier for people to understand, and easier and cheaper for the government to administer

Whatever profile of claimants DWP had in mind in designing UC, it was not our clients. If UC were meeting this objective we would not have seen the huge upsurge in need for independent advice including the set-up of the Help to Claim service itself. While we acknowledge that there are people with the necessary skills and confidence to manage their UC claim in the way that DWP envisaged these are not the people who approach us for advice. We would argue that, to be considered successful, UC should work for everyone, including the most vulnerable and unskilled.

Our contact with DWP and Jobcentre Plus on our clients’ behalf strongly suggests that many of their own officials are also struggling with the complexity of UC, given the poor, inaccurate and contradictory information often received from them. We understand too that UC Service Centre staff are completely overwhelmed with the number of cases they are expected to handle, making it impossible for them to provide an acceptable level of service tailored to individual claimants.

### To reduce the number of people who are in work but still living in poverty

UC contributes nothing to address low wages and exploitative employment practices which are the root causes of in-work poverty – in fact, increased conditionality under UC (including for former tax credits recipients who were not part of this regime before) could push people into these kinds of poor-quality jobs including bogus self-employment for fear of being sanctioned, and thus arguably increases the supply of readily-expendable labour that allows employers to get away with such practices. Conditionality and the requirement for 35 hours per week job search makes it harder for people to undertake education or training that could help them progress into better-paid work: UC has also done away with the well-established '16 hour rule' that allowed claimants of legacy benefits to study part-time.

We believe that with proper training and resourcing (including the proposed establishment of a single enforcement body for employment rights breaches), the Job Centres could actually help to identify and challenge exploitative employment practices.

### To reduce fraud and error

Recent scams in which criminals have impersonated potential claimants to secure advance payments suggest the system is vulnerable to fraud – while at the same time managing to make it extremely difficult for many legitimate claimants to satisfy DWP as to their ID and entitlement (especially right to reside in the UK, which has to be re-established and is adjudicated much more stringently than for legacy benefits).

DWP offers claimants so little information on how their allowances are calculated (much less detail than for legacy benefits) that it's very hard for individuals (or advisers) to spot and challenge potential errors. Indeed, as the UC system in effect conditions people to expect varying amounts of money each month they are less likely to be alerted to the possibility of an error in the first place.

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

We find no fault with the headline objectives as set out in the UC Business Plan: even "cheaper" administration need not, in itself, be a bad thing if it reduces waste and frees up money to be better spent elsewhere. What is entirely wrong – and what needs to change - is the way DWP has interpreted the objectives and gone about delivering them. We are also concerned about the Government's other objective for UC, of using the 'reforms' to make savings in public spending at the expense of the poorest people in society. We welcome the removal of the benefits freeze but there is no move to restore benefits to their pre-austerity levels

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

As noted above, the people who approach us do not do so because their experience of UC has been positive.

Since UC was introduced in Sheffield in 2017, like other advice and support agencies we have seen an association with indebtedness, more reliance on foodbanks and difficulties in managing basic essentials like rent.

Moreover, the (deserved) adverse publicity and informal word-of-mouth information on UC has engendered fear and suspicion at the prospect of having to claim, to the

extent that some people have chosen to try to survive without the benefits to which they are legally entitled, or opted to remain on legacy benefits even when they would be financially better off on UC. Having to deal with UC creates greater stress and feeling of helplessness than was the case with legacy benefits, particularly among people with mental health conditions.

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

UC is inadequately resourced, in terms of money paid to claimants and of staff employed to deal with claims and support individuals, to deliver properly on its declared objectives.

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

As noted above, we tend not to see people for whom UC works well. Among all our clients struggling with UC, we would highlight four groups in particular who are clearly losing out financially in comparison to their entitlements under legacy benefits:

The extra costs of disability and ill health were recognised in legacy benefits through additional disability 'premiums', but these were removed from new UC claims, making disabled people some of the biggest financial losers under the new system. UC has also removed the income disregards that, in legacy benefits, acted as incentive for disabled people to undertake some part-time work rather than rely entirely on benefits.

After the first year of trading, self-employed workers claiming UC are treated by default as though their income equals the minimum wage for a 35 hour week - even if it doesn't in reality. Their UC allowances are set on the basis of this notional figure (the 'Minimum Income Floor'), meaning they receive less benefit despite not actually making the level of income used in the calculation.

Mixed-age couples (pension-age claimants with a younger spouse) no longer have the option to claim Pension Credit, but must claim UC, though this contains no age-related addition, making them worse-off and bringing them within the conditionality regime.

Under legacy benefits, disabled FE students aged 19+ could start to receive benefit payments straight away on the basis that they were deemed 'unfit for work'. Under UC they are assumed to be ineligible for benefit (because they are in education) until a face-to-face assessment finds them unfit for work, meaning they have to go several months without money.

### **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?**

UC appears to us to have been designed around an assumption of regular working hours, calendar-monthly salaries and relatively conscientious employers (conditions such as those enjoyed by civil servants, for example). Even at its introduction this was not the reality for many potential claimants, and the working conditions experienced

in some jobs then have spread further into the labour market as a whole. Insecure employment on zero hours contracts with fluctuating and unpredictable hours and pay, all conspire to hinder accurate and fair calculation of UC allowances and to render the level of benefit received equally unpredictable and unreliable from month to month. Moreover, very little information is given to claimants about how UC allowances have been calculated, making it harder to spot – and challenge – errors. If UC was intended to encourage claimants to budget wisely, this stacks the odds against them. Increased use of RTI, though a sensible development, does not solve these problems.

Where complications arise from a mismatch between UC calendar monthly assessment periods and individuals' weekly, fortnightly or four-weekly payment schedules, DWP places responsibility on the claimant to solve the problem by persuading their employer to change their payroll system. Even the most benevolent employer – and many are not – would balk at this demand, and we do not consider this a realistic or fair solution.

Uncooperative or exploitative employers delay or withhold payments to which people are entitled, or make it difficult to secure information needed to manage a claim. People who may eventually succeed in getting an ex-employer to pay them their legal entitlements are then penalised by having their UC reduced, even though the earnings cover a period before their claim was made.

UC conditionality usually requires people to make up their working hours to 35 per week but our research has shown that it is difficult to find extra hours to fit around existing part-time work commitments, even where these are regular, and harder still to fit with unpredictable commitments under a zero hours contract and/or caring commitments outside work.

Low-paid workers find it hard enough to cover day-to-day living costs and do not have the cushion of savings envisaged by DWP to see them through the initial five-week wait for their first UC payment, putting them at immediate risk of debt, rent arrears and reliance on foodbanks – a position they may never have experienced before.

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

Some of the improvements to UC recommended below are relevant solely to claimants in work, but they would also benefit from the other changes cited which we believe are necessary to create a more effective and humane system for all.

#### Abolish the five-week wait

As noted above, people who have been on low pay struggle with the initial five-week wait that is a deliberate element of UC design. Although this problem is now tempered to some extent by concessions secured from DWP, such as routine offering of an advance payment (loan), there are still gaps that create immediate and severe financial pressures, and the advance payment itself also creates an immediate cycle of debt since it has to be re-paid (and recovery rates are higher in UC than in legacy benefits). We believe that a non-repayable advance should be provided for new claimants and a full run-on of all legacy benefits should be allowed until UC is ready to pay.

#### Make assessment of income fairer and more flexible

There are numerous anomalies associated with the rigid application of the UC assessment period and payments received within it. In particular, claimants receiving payments from a previous employer can see their UC allowances reduced because DWP treats this as current income, even though the payment was for a period prior to their UC claim. In this way people are, in effect, penalised for securing their legal employment rights e.g. pay in lieu of notice. Also, people can find the amount of UC received is skewed by their salary payment date (e.g. early before a bank holiday, or a four-weekly cycle instead of calendar monthly), meaning they end up with less UC than expected and making it harder to budget (despite this being one of the declared aims of UC).

DWP should clarify its rules on treatment of income to ensure clients are not penalised for securing their legal rights from previous employers.

#### Review the impact of the Minimum Income Floor rule on self-employed people

As noted above, after 12 months UC allowances are calculated on the basis of a notional, rather than actual, income figure, resulting in financial hardship and acting as a disincentive to try to work at all. While we understand the need to deter obviously false self-employment, we believe the current MIF arrangements are too harsh and want to see them reviewed. This is a particular problem for people with health conditions who choose self-employment as a flexible work option that accommodates periods when they are unwell.

#### Restore work allowances for all claimants

As also noted above, UC removed work allowances previously acted as an incentive for people to work as much as they could manage. We think these allowances should be restored, and arrangements akin to 'Permitted Work' and the disabled person's tax credit re-introduced so that people whose conditions limit their capacity to work, whether permanently or temporarily, still have an incentive to do as much as they can to make their own living and thus retain some independence.

#### Make better use of the Flexible Support Fund

This discretionary fund enables UC Work Coaches to support claimants with one-off costs associated with starting or progressing in employment (e.g. paying for an operating licence, or a training course to qualify for better-paid jobs) but our evidence suggests it is not well-known or used. We would like to see it publicised prominently in Jobcentres so both claimants and staff are reminded to consider it. We would also like to see its use monitored to assess effectiveness and eliminate any risk of a 'postcode lottery' across the country.

#### Improve access to passported benefits - especially free prescriptions and Free School Meals

Arrangements for claiming passported benefits are out of sync with UC (or, arguably, vice versa) and the digital-based system does not provide evidence required elsewhere to prove eligibility – often a two-step rule instead of simple passporting. We want to see the rules and procedures for passported benefits simplified so that entitlement is clear, at least equivalent to legacy benefits, and easier to evidence.

#### Reduce debt recovery reductions to more manageable rates

For people repaying debts through deductions from benefits, the rate of recovery is set much higher under UC than in legacy benefits (though the amount of benefit is the same). Often this happens without explanation, or any discussion of what is affordable, leaving claimants insufficient money to live on without understanding why

(or being equipped to challenge). Debt deduction levels should be reduced to legacy benefit rates.

#### Improve the Claimant Commitment challenge process

Currently there is no formal right of challenge to a Claimant Commitment, however unrealistic or over-demanding, until a breach is deemed to have occurred and a financial sanction imposed. Only then can the terms of the Commitment be challenged, through MR and, if necessary, appeal, meaning that any changes take many months to achieve. Conditionality rules should be reformed to make the content of a Claimant Commitment appealable before a breach.

#### Allow flexible payment frequency by choice

The current dogmatic insistence on a calendar monthly cycle as the default arrangement in UC causes significant financial and other pressures for many claimants used to budgeting weekly or fortnightly, or who struggle to budget at all. The emphasis on calendar monthly payments is at odds with the fact that 58% of claimants transferring onto UC previously received their income weekly or fortnightly. At present in England, a request to vary payment frequency through a discretionary Alternative Payment Arrangement (APA) has to be justified with a strong case to secure DWP agreement, but in Scotland DWP routinely allows frequency APAs on request. We see no reason why English claimants should not have the same flexibility as those in Scotland.

#### Date entitlement from the start of the claim process, not completion

Currently, the date of claim, and calculation of entitlement to benefit, runs only from when a completed claim is submitted, which must be preceded by setting up an account – both relatively taxing processes requiring large quantity of supporting information which can take time to assemble. UC rules should enable claimants to register a date of claim when they first make contact with DWP (as is done for Personal Independence Payment (PIP), for example) so that payment is calculated from that date.

#### Make the digital platform optional

There is a significant minority of people who will always struggle badly with making and managing a claim online, and ignoring this is the cause of avoidable hardship and anxiety for many claimants. Our experience shows that DWP staff remain resistant to allowing vulnerable clients to make a non-digital claim, and we want to see all officials putting into practice DWP's own guidance which explains that this is permitted for such groups. Ideally, when a non-digital claim is taken, a digital account and journal should still be created so that the claimant has the option to use this later if their IT access and skills improve.

#### Restore disability allowances

The extra costs of disability and ill health were recognised in legacy benefits through the inclusion of disability premiums. However such premium or 'elements' were removed from UC, making disabled people some of the biggest financial losers under the new system. There appears to be no rationale for the change under UC except cost-cutting. Disability premiums and allowances should be restored so that claimants get the same deal under UC as they would have done under legacy benefits.

#### Promote claimants' right to challenge DWP decisions

Claimants are less aware than ever of their right of challenge/appeal, and less equipped to exercise it. Under UC, little detail is given on how entitlements are calculated (a particular problem with housing costs), making it very hard for claimants and advisers to check for errors. Nor does DWP routinely explain – as legacy benefit award letters did - claimants’ rights to challenge benefit decisions or suggest entitlement to passported benefits.

DWP should send claimants a hard-copy entitlement notice - at least for the first UC payment - which should include a clear breakdown of the UC calculation including housing costs, together with a clear statement of their right to challenge and their passported benefit entitlement.

#### Guarantee a fixed and fair timescale for handling Mandatory Reconsiderations

Requesting from DWP a ‘mandatory reconsideration’ (MR) of their decision is the required first step in the challenge process for all benefits including UC. Claimants have to adhere to strict response deadlines (usually one month) after which their case can be ruled out of time, but no deadlines are observed by DWP. The open-ended nature of this part of the process means that disputes can take many months to be resolved, especially when further action beyond the MR is subsequently required. DWP should set, and meet, a timescale for responding to MR requests that is equivalent to their expectations on claimants.

#### Make split payments between individuals in a couple the norm

Currently, split payments are another form of discretionary APA which has to be requested and justified (and in August 2018, out of one million UC claims only 20 households had this arrangement). Yet to receive their joint payment, both members of a couple have to make, and comply with, a separate Claimant Commitment (so that non-compliance by one person affects the payment for them both). This present situation is especially dangerous for people in abusive/coercive relationships.

Split payments should be the default arrangements for paying claims from couples, with the option to combine payments on request of both parties. Where a single payment is made to a household with children the default position should be to pay the main child carer (though this too could be altered on request).

#### Pay housing costs direct to the landlord on request, and on a flexible schedule

Currently direct housing cost payments are another form of discretionary APA which has to be requested and justified. This exacerbates the problem of arrears – and even, arguably, acts as a perverse incentive because people are not considered for an APA until they are behind with their rent.

Ongoing problems also arise when direct housing cost payments from UC (made to all landlords on the same date) are out of sync with dates when rent is actually due, so tenants can find themselves regularly in arrears – albeit temporarily - even though they have an APA in place.

DWP should allow housing costs to be paid direct to a landlord on request, and without people needing to demonstrate arrears. DWP payment arrangements should be flexed so the frequency matches rent due dates.

#### Improve systems for recording and sharing information on vulnerable claimants with complex needs

Numerous issues flow from failure to acknowledge and accommodate claimants’ difficulties (such as mental illness, or lack of English) - despite DWP’s own guidance

including a lengthy list of potentially vulnerable categories. The UC IT system is very poorly designed to record this information, though it is vital it should, since each claimant has to deal with numerous different DWP staff - Work Coaches in Jobcentres, case managers at DWP Service Centres who don't know them personally, and possibly also DWP visiting officers. We want DWP to improve its system for recording client vulnerabilities in a prominent and lasting way that all officials will easily see. This should also include details of specific adjustments required to mitigate their difficulties, to ensure readily-accessible payments and a realistic claimant commitment avoiding the risk of sanctioning. Good, regular, ongoing DWP staff training is also required to ensure all Work Coaches and case managers understand the range of issues and barriers that vulnerable claimants face.

*28 February 2020*