

# **POVERTY ALLIANCE – WRITTEN EVIDENCE (EUC0077)**

## **The economics of Universal Credit**

### **About the Poverty Alliance**

The Poverty Alliance is Scotland's anti-poverty network. Together, we influence policy and practice, provide evidence through research, support communities to challenge poverty and build public support for the solutions to tackle poverty.

Our members include grassroots community groups, activists who are experiencing poverty, academics, large national NGOs, voluntary organisations, statutory organisations, trade unions, and faith groups.

### **Background**

The Poverty Alliance welcomes the opportunity to respond to the Economic Affairs Committee's inquiry into Universal Credit.

Our response has been informed by a number of research and engagement projects that we have led and participated in. These include a research project that we have undertaken with researchers from the University of Glasgow on the experiences of claimants and of Department for Work and Pensions staff in accessing and delivering Universal Credit, the findings of the Menu for Change project (of which we were project partners) which focused on the drivers of food insecurity, as well as insights from our Get Heard Scotland initiative which is a community engagement initiative aimed at understanding what's working, what's not and what needs to change to better tackle poverty in Scotland.

### **Responses to inquiry questions**

Q: How well has Universal Credit met its original objectives?

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

Universal Credit as a policy was initially intended to simplify the social security system, tackle poverty and support people into and sustain them in employment. These were aims that the Poverty Alliance – along with many other organisations working on issues related to poverty in the UK - supported. However, current evidence suggests that – due to a combination of design failures, delivery challenges and policy decisions (most notably fiscal retrenchment, which has contributed to a significant reduction in the level of support provided to people) – these aims have not been met.

With specific relevance to the aim of using Universal Credit to more effectively tackle poverty, it is clear from all evidence that – rather than loosening the grip of poverty on people’s lives - Universal Credit has contributed to an increase in the numbers of people experiencing short and long-term income crisis. At a headline level, since Universal Credit has been introduced we have seen levels of poverty across Scotland – as with the rest of the UK - increase sizably.<sup>i</sup> While the increase in the numbers of people being pulled into poverty has not solely been caused by the introduction of Universal Credit, it has clearly been a major contributory factor due to the way in which it has introduced serious income shocks

For example, the two-child limit on the child element of Universal Credit has meant that the level of support provided by Universal Credit has been rendered entirely inadequate for substantial numbers of families across the UK. As research conducted by the Child Poverty Action Group and others has found, 300,000 children will be pushed into poverty across the UK as a result of the policy, with one million children already in poverty pushed into deeper poverty by 2023/24.<sup>ii</sup> These numbers also include families accessing child tax credits rather than Universal Credit, but the point remains that the decision to cut the level of support provided by Universal Credit is having an overwhelmingly negative impact. Similarly, the freeze on working-age benefits has meant that the level of support people receive via Universal Credit (as well as via the legacy benefits) has been substantially and critically cut; pulling more people into poverty.

Relatedly, the introduction of Universal Credit has also been one of the most significant reasons for the increased levels of food insecurity that we have seen across communities in recent years. As detailed in Menu for Change’s *Found Wanting* report, the five week wait for Universal Credit has been one of the key factors forcing people into income crisis.<sup>iii</sup> There can therefore be no doubt that Universal Credit has failed in its aim of ensuring that the social security system is better able to tackle poverty; indeed, it has achieved the opposite outcome.

In relation to the objective around simplifying the social security system, the evidence suggests that while the system may be simpler for some people (for example people who are IT literate), for many people it has become even more difficult to navigate and has caused additional complexity. Forthcoming research conducted by the Poverty Alliance and researchers from the University of Glasgow found that while some claimants find the online system simple to navigate, it can be extremely challenging for people with a lack of IT skills and for people who do not have easy access to computers or the internet.<sup>iv</sup>

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

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

The negative impacts of Universal Credit have been significant and have – as already detailed in this response – contributed towards increasing numbers of people being pulled into poverty, destitution and food insecurity. These negative impacts have been caused by a number of design and policy decisions, as well as delivery failures. These include the five week wait; the advance payment system; the digital-by-default approach; the inflexibility of the monthly assessment period, as well as the basic inadequacy of the support provided.

One of the most negative impacts of Universal Credit has been the way in which moving on to it from work or other benefits and having to wait at least five weeks for payment has acted as a trigger for and driver of severe food insecurity. This wait has – for many people – meant that they have been forced to rely on family or friends to get by, or have been forced into using food banks in order to survive. Our forthcoming research with the University of Glasgow found that the five-week wait was the most negative aspect of Universal Credit for many people.<sup>v</sup>

Given the impact of the five-week wait, many people are often forced into taking out advance payments. However, deductions on subsequent payments in order to pay back advances – combined with rent arrears and other debts – often extend the experience of food insecurity, particularly given the high rate at which they are repaid.<sup>vi</sup> Our forthcoming research found that most participants took advance payments in order to avoid immediate rent arrears and hunger, but then had difficulty managing repayment deductions; causing significant and ongoing issues. The research also found that several of the research participants were struggling financially several months after first being interviewed, and were particularly affected by deductions due to advance payment repayments and rent arrears; making clear that the impact of the five-week wait does not end when the five-week wait is over.

Once the five-week wait is over though, the basic inadequacy of support provided by Universal Credit – exacerbated by factors such as the benefits freeze, two child limit and cuts to work allowances – continues to pull and lock people into poverty. For example, one parent living in Midlothian that we spoke to as part of our Get Heard Scotland project reported such a significant loss of income (after moving on to Universal Credit from legacy benefits) that she was forced to give up work due to being unable to afford childcare.<sup>vii</sup>

The 'digital by default' nature of Universal Credit has also had profoundly negative impacts. For people who do not have IT skills (including many older people) or who

do not have easy access to computers or the internet, it can be extremely challenging to manage their claims online. For example, a member of the Poverty Alliance Community Activist Advisory Group – a group comprised of people with lived experience of poverty - told of us their experience of submitting their initial claim online. As they are sight-impaired, it took them over eleven hours to submit their claim using their mobile phone. Such an experience was extremely stressful, and for many people may have resulted in simply not claiming what they are entitled to.

There are a number of groups who have been particularly negatively impacted by the manner in which Universal Credit has been designed and delivered. These include but are not limited to:

Disabled people and people with limiting health conditions: Our research on Universal Credit in Glasgow has found that disabled people and people with limiting health conditions found attendance requirements and job search expectations to be unrealistic. As a result, some expressed 'resigned acquiescence' to their claimant commitments rather than active engagement.<sup>viii</sup>

Young parents: Single parents under 25 – who are already at heightened risk of experiencing poverty and who are disproportionately women – receive a reduced Universal Credit standard allowance rate. In contrast, under the previous system single parents under 25 received the same level of support as older parents owing to their childcare responsibilities. The new system means that young parents' incomes are cut despite having the same level of living costs as older parents. Allied with the fact that National Minimum Wage rates are already lower for younger people, this significantly increases the chance that young parents will be pulled deeper into poverty.

Women: A number of the design features of Universal Credit – as well as policy decisions – have had a profoundly gendered impact. For example, the extension of conditionality to couples with very young children has taken no account of gendered dynamics within households, or of the challenges that many women face in finding flexible employment that they are able to balance with their childcare responsibilities.

Q: 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?

Broadly, the evidence suggests that Universal Credit's design does not adequately reflect the reality of low-paid work, and does not meet the needs of low-paid workers.

The significant extension of conditionality for example – when compared with the previous system – too often does not reflect the demands and realities of the modern labour market, particularly for workers in insecure employment (for example on zero hours contracts). The cost and stress of searching for additional or alternative employment above a specific hourly threshold – while simultaneously seeking to sustain existing employment which can be insecure and unpredictable – can place significant psychological and financial pressure on individuals and families.

Allied with the extension of conditionality is the ongoing threat of sanctions, which for participants in our research into the impact of Universal Credit in Glasgow represented a source of significant stress and anxiety. Jobcentre staff who participated in the research broadly stated that the actual use of sanctions had decreased in recent years, however some highlighted that ‘vulnerable people’ and ‘people with chaotic lives’ were more likely to be at risk of sanctions for example as a result of ‘not being digitally skilled’ or not undertaking the to do list in their journal.<sup>ix</sup>

The inflexibility of the monthly assessment period for Universal Credit can also have serious financial impacts on people. Workers who are paid four-weekly, fortnightly or weekly are at risk of losing their Universal Credit entitlement, even though their earnings remain the same. This inflexibility can seriously compound the experience of in-work poverty, and is a direct result of the design of Universal Credit.

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

Universal Credit as currently designed and as currently being delivered is contributing towards increased poverty, destitution and food insecurity across our communities. Where it should be loosening the grip of poverty instead it is tightening its grip, and where it should be making it easier for individuals and families to get by instead it is making it more difficult.

There are therefore a range of reforms that are urgently required if Universal Credit is to reflect the experiences and the needs of all those who access it, and if it is to meet its original aims. These include, but are not limited to:

- Ending the five week wait for first payments;
- Developing a system of non-repayable advance payments;
- Ending the ‘digital by default’ approach and ensuring a mixed approach (i.e. digital and face to face and telephone) to managing Universal Credit claims;
- Ending the punitive application of conditionality and sanctions;

- Restoring the value – following the benefits freeze – of Universal Credit and commit to at least uprating in line with inflation;
- Ending the benefit cap and removing the two-child limit;
- Equalising the entitlement of single parents under 25 to the same as single parents over 25;
- Introducing flexibility to the assessment period, to ensure that workers do not miss out on their entitlement due to changes in when they receive their wages.

28 February 2020

---

<sup>i</sup> Scottish Government, *Poverty & Income Inequality in Scotland: 2015-18*, 28 March 2019, <https://www.gov.scot/publications/poverty-income-inequality-scotland-2015-18/>

<sup>ii</sup> CPAG et al, *All Kids Count: The impact of the two-child limit after two years*, June 2019, <https://cpag.org.uk/sites/default/files/files/All%20Kids%20Count%20report%20FINAL.pdf>

<sup>iii</sup> Menu for Change, *Found Wanting: Understanding journeys into and out of food insecurity: a longitudinal study*, October 2019, <https://menuforchange.org.uk/wp-content/uploads/2019/10/Found-Wanting-A-Menu-for-Change-FINAL.pdf>

<sup>iv</sup> Laura Robertson, Sharon Wright and Alasdair BR Stewart, *How well is Universal Credit supporting people in Glasgow?* (Forthcoming)

<sup>v</sup>Ibid

<sup>vi</sup> Menu for Change, *Found Wanting: Understanding journeys into and out of food insecurity: a longitudinal study*, October 2019, <https://menuforchange.org.uk/wp-content/uploads/2019/10/Found-Wanting-A-Menu-for-Change-FINAL.pdf>

<sup>vii</sup> Poverty Alliance, *Get Heard Scotland: 2019/20 report* (Forthcoming)

<sup>viii</sup> Laura Robertson, Sharon Wright and Alasdair BR Stewart, *How well is Universal Credit supporting people in Glasgow?* (Forthcoming)

<sup>ix</sup> Ibid