Call for evidence into the economics of Universal Credit

Report to the House of Lords Economic Affairs Committee
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About Policy in Practice

1. Policy in Practice was founded by one of the architects of Universal Credit. Our mission is to make the welfare system simpler and easier for people to navigate through our policy research, benefit calculation software and advanced analytics for the public sector. 10,000 people each day use our benefit calculator to navigate the benefit system. We work with more than 100 councils to identify and engage vulnerable households and track the impacts of policy (including Universal Credit). Our research work has been supported by the Joseph Rowntree Foundation, Welsh Government, Local Government Association, Trust for London and the Cabinet Office among others.

2. We welcome this call for evidence as Universal Credit (UC) replaces the legacy benefit system for people across the UK. This submission is based on our own analysis, alongside feedback and recommendations from the frontline organisations with work with.

3. We would be pleased to provide further assistance or evidence to the committee on our proposed solutions to the key challenges Universal Credit faces, or to the opportunities it offers. It is a better platform on which to build than the legacy system it replaces and can become a benefit system fit for the future.

Overview

4. The core aims of Universal Credit, **to simplify the benefit system and improve work incentives**, had broad cross-party support in 2012.

5. The success of Universal Credit in its current form is mixed. This variety of experience is primarily due to the diverse needs of a wide range of claimants. For working claimants previously in receipt of tax credits there is a high rate of approval of Universal Credit. For some other groups, the new benefit is problematic.

6. Groups struggling with Universal Credit include those with irregular earnings, vulnerable households with barriers to managing an online claim, households with insufficient resources to manage the five week wait for first payment, and those struggling with ongoing reductions in support due to repayment of advances. Many of the issues preventing success of Universal Credit can be overcome given sufficient will and resources.

7. Many of the current problems with Universal Credit are self-inflicted. These include the introduction of a five-week wait, an inflexible approach to payments and debts, and a highly risk averse approach to data sharing. There have been missed opportunities to make changes to Universal Credit that better support people who are struggling. There have also been missed opportunities to simplify the benefit system as a whole, specifically by rolling council tax support and free school meals into Universal Credit.

8. Councils currently use administrative data to identify people who are struggling under the legacy system, and who are likely to struggle with Universal Credit. They are supported to claim council tax support, free school meals, food vouchers and social tariffs for their utility bills. These proactive approaches should be applied nationally to households likely to struggle with the transition to Universal Credit.

9. When evaluating the impact of Universal Credit, the Committee should recognise that Universal Credit is being rolled out against the backdrop of austerity, and that a fair comparison of its challenges need to be set against the challenges faced by those navigating the legacy system. With this in mind, Universal Credit is clearly a better platform on which to build than the legacy system it replaces.

10. Reduced benefit support has been implemented through freezing benefit rates for working-age claimants and introducing cost-saving measures such as the benefit cap, the freeze in LHA rates, the bedroom tax, and continues through the two-child limit. These measures are often considered as part of Universal Credit but, in fact, apply equally to legacy benefits. Even so, the imposition of austerity measures alongside Universal Credit rollout has had a significant effect on the ability of Universal Credit claimants to manage on the new benefit and caused reputational damage.

11. This submission offers solutions to some of the key challenges to the success of Universal Credit. These include proposals to mitigate the five-week wait and the budgeting difficulties caused by the interaction of Universal Credit and fluctuating earnings. We also raise serious concerns about a lack of support and loss of focus toward those unable to work. Despite its serious implementation challenges, often exacerbated by austerity, we believe Universal Credit's current flaws can be resolved.

How well has Universal Credit met its original objectives, and were these the right ones?

12. The original objectives of Universal Credit, to **simplify the benefit system** and to **make work pay** remain worthwhile objectives and core guiding principles.

To simplify the benefits system

13. Simplicity in policy development is often undervalued. The legacy system segregated in-work and housing support from DWP administered benefits. This introduced uncertainty for claimants (and advisors) when their circumstances changed. People would often fail to claim all of the benefits to which they were eligible. The legacy system required claimants and advisors to split their administration efforts across three separate agencies, each with different entitlement provisions and claim processes.

14. Universal Credit responds to these issues and simplifies the system in a number of ways:
    - It provides a single benefit, administered by a single agency (the DWP), for those in-work and those out-of-work. This enables more streamlined support for those whose employment status changes.
    - Calculation of support is more easily understood by both claimants and advisors as earned income is subject to a single taper after application of work allowances. This allows claimants to readily understand if they are better off, or worse off, if they have a change of circumstance.
    - The regulatory framework is in one document and simplified.

    Against this backdrop, Universal Credit is undoubtedly simpler than the legacy system.

15. However, there have also been missed opportunities around simplification. Particularly relating to other support that falls outside Universal Credit.
    - Council Tax Support is significant to households reliant on means-tested benefits. The average council tax charge in England now stands at over £145/month with maximum support ranging from 100% to 60% dependent on the local authority. We work with over 100 councils to model changes in council tax support and have noticed a reduction in applications for support as households move across to Universal Credit. A separate application is in efficient, we have estimated that integration or automation of the council tax application could save around £400m per year.
    - Free School Meals and prescriptions were accessed through a passport system under legacy benefits and were awarded to all those receiving certain benefits (JSA, ESA, IS). Entitlement to both of these is no longer automatic and relies on claimants proving earned income is below a threshold. This has the added downside of introducing a significant work disincentive as free school meals need to be replaced by net post-UC income. Further confusion arises through different thresholds for prescriptions.

16. Beyond the mechanics of support levels, there have also been missed opportunities to simplify both the claim processes and payment systems that support Universal Credit. UC has the potential to become *the* hub for means-tested support across government, with the underlying data shared securely to support proactive and purposeful interventions
    - The five week wait for first payment brings one of the main issues with moving into work under legacy benefits (payment in arrears) into the heart of Universal Credit. This is being belatedly tackled by making advance payments available for all claimants, increasing the level of the advance, and introducing run-ons for Housing Benefit, and from July 2020 for other DWP benefits.
    - The need for a payment before five weeks is borne out by the level of take up of an advance; 44% of claimants of Universal Credit take out an advance to help them through the five-week wait. Advances are offered at 100% of anticipated maximum Universal Credit and are repaid over 12 months (to increase to 16 months from October 2021). This means that for nearly half of all claimants, the move to Universal Credit involves automatically moving into debt or increasing current debts.
    - The majority of these households will see support reduce by 30% of their personal allowance during the period of repayment. This level of repayment adds complexity to the system with claimants unable to forecast future levels of Universal Credit. There is also evidence that repayment of this loan causes significant hardship. This was one of seven interrelated risk factors associated with the transition to Universal Credit, identified in our recent report supported by the Joseph Rowntree Foundation. We found that it is possible for DWP to identify the 6% of households (740,000) unable to meet their outgoings both during the five-week wait, and while repaying the Universal Credit advance.
    - Potential solutions to the negative impact on financial resilience are provided in the report referenced above, these include a targeted grant in place of an advance aimed at those with low financial resilience, in addition to the advance being available (as an interest free alternative to combat high cost lenders). We also called for greater flexibility and a claimant-centred approach to loan repayments and payment arrangements, and for the proposed two-week run-on of DWP benefits to include Child Tax Credit to help families with children.

17. Our work with frontline organisations has also highlighted that, for some claimants, the online claim process is seen as long, complex, and a barrier to claiming Universal Credit. This is most likely to be the case for those that have barriers to making and maintaining an online claim and those lacking the required documentation. For example, those with insufficient literacy skills, lack of access to the required technology, addiction, recently homeless, or where English is not a first language. For these claimants, claiming and managing a Universal Credit claim can be more complex than the more supportive face-to-face options available under legacy systems.

18. Two recent research projects undertaken by Policy and Practice illustrate claim barriers: Universal Claims and Supported Housing (on behalf of four leading supported housing providers), and the The implication of Universal Credit for People Living with Motor Neurone Disease (on behalf of the Motor Neurone Disease Association). One conclusion common to

both reports is that the claim process and claim management could be simplified through better support. In particular, through ensuring that the social security system explicitly recognises the role of those supporting claimants (e.g. support workers or medical professionals) and that the DWP develop better communication processes, specifically to enable the claimant to give time-limited access to third-party advocates to support claims administration.

To make work pay

19. For most claimants Universal Credit offers a better route to ensuring work pays than through legacy benefits. Under legacy benefits, rules governing the number of working hours that confer eligibility to a benefit meant that for some claimants increased earnings did not translate into increased household income. In addition, the requirement to move benefits from out-of-work provision to in-work provision acted as a disincentive to increase working hours.

20. Under Universal Credit, a single taper (the amount support reduces as earnings rise), combined with higher work allowances (the amount that can be earned before benefit is affected), means that claimants of Universal Credit retain a higher proportion of earned income. Policy in Practice's data analysis (following the Autumn 2018 budget) showed that employed households were likely to be £39/month better off under Universal Credit than under legacy benefits.

21. Nevertheless, there are still concerns that for specific groups of claimants the move to work may not always be financially beneficial:
    - Claimants without children and who have not been deemed unfit to work, do not have a work allowance. In other words, they lose Universal Credit support from the moment they start to earn. Given that retention of earnings is set at 37% of net income the cost of work for these claimants risks being greater than retained earnings. Unemployed single people are more likely to face long term worklessness. Restoring work allowances for this group, as in the initial design of Universal Credit, should be prioritised over introducing a new work allowance for second earners, as it would have a bigger impact on poverty and prospects (see p.86 in our 2014 report on Universal Credit).
    - The earnings threshold approach to free school meals and free prescriptions can result in costs that outweigh any increase in earnings as households pass these thresholds. Our analysis[1] shows that a family with three children would need to earn an additional £3,000 to make up for the loss of free school meals. This means that a 40% increase in their gross earnings from just below the threshold would leave them no better off. One solution, is to use the work allowance mechanism within Universal Credit to partially fund meals for those above the proposed earnings threshold (this is outlined here).

[1] How to give 1 million more children free school meals under Universal Credit, Policy in Practice, July 2018

- Universal Credit provides more generous provision for childcare costs than legacy benefits, increasing support from 70% of costs to 85% of costs (up to a cap). However, upfront payment for childcare means that some households cannot meet the initial cost and so cannot move into work. Other households risk falling into debt as they move into work thereby creating a disincentive to work. Reimbursement of childcare cost through Universal Credit is paid in arrears. Our current preferred approach is that the nursery is guaranteed to be paid the 85% if they evidence the costs on behalf of the parent. The parent would then only have to pay the 15% of outstanding cost in advance. For those that could not meet even this reduced cost, the Flexible Support Fund could assist.

Economic impact and fiscal entrenchment

22. The benefit system has become less generous as Universal Credit has rolled out. Of particular note are:
    - The removal of work allowances under Universal Credit for some households.
    - The four year freeze in working-age benefit rates.
    - The freeze in Local Housing Allowance rates meaning tenants see a lower proportion of their rent met by means-tested benefits. These rates limit the amount of benefit support for tenants. The freeze has coincided with rental costs outstripping inflation.
    - The removal of higher support rates for those that are too ill to work but who are expected to prepare for work (ESA WRAG or Limited Capability for Work).
    - The removal of support for any more than two children in a household.

23. Cost-saving measures have had a significant impact on households reliant on benefits for support. Our evidence to the Work and Pensions Select Committee showed that the two child limit alone would push just under a quarter of a million additional households into poverty. Recent research undertaken by Policy in Practice for the Local Government Association on the impact of the freeze in the Local Housing Allowance, showed that only 13% of private tenancies are affordable to households in receipt of means-tested benefits and for every 1,000 households with rent above their LHA, 44 will incur often significant homelessness support costs to the council.

24. In the minds of customers and the media, these changes (that also affect legacy benefits) are related to Universal Credit. This is partially due to changes of circumstances that trigger a move to Universal Credit, also triggering the ending of any transitional support (e.g. from removal of the ESA WRAG group addition).

25. As the welfare state has become less generous, people have less capacity to cope with the changes that Universal Credit brings. Councils and the advice sector have less money to support people with these changes. If the benefit freeze had not occured, fewer households would have been pushed into crisis through repayment of advances or through small changes in benefit rates. The erosion of the welfare safety net is the key reason for Universal Credit's reputational problems.

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

26. Universal Credit has been designed with work at its heart. Those gaining financial support tend to be working households. This is due to the combined effect of a higher retention of earnings (claimants retain 37% of their earnings) and the application of work allowances (the amount of earnings that households can retain with no reduction in their Universal Credit award). The 2018 budget aimed additional financing of Universal Credit solely at those in work. Following this budget, employed households saw an average £38/month increase in support compared to legacy benefits. This increase in support to working households is to be welcomed.

27. Policy in Practice's analysis of support levels (following the Autumn budget 2018), showed the following groups are most likely to lose support as they move to Universal Credit:
    - Households in which a person is in receipt of disability benefits (DLA, PIP or AFIP), but is deemed fit for work, will see an average reduction in support of about £50/week. This is due to the exclusion of specific additional support elements for disabled people under Universal Credit (the disability premia). These claimants are able to work but need support with mobility or day-to-day living. Universal Credit already contains mechanisms for additional support for those with specific needs (the Universal Credit elements) and these could be extended to cover the needs of those in receipt of disability benefits.
    - Self-employed households will see an average reduction of about £50/week due to assessment of Universal Credit being based on a notional earnings level rather than actual earnings (the Minimum Income Floor). Though this change isn't central to Universal Credit (it could equally have been applied to tax credits), it is rolling out as part of UC. Newly self-employed people are protected from the Minimum Income Floor during the first 12 months. This grace period will be extended to all Universal Credit claimants migrating from existing benefits from September 2020.
    - Homeowners currently in receipt of tax credits will see an average reduction of £40/week. This is due to a number of differences in the assessment of tax credits and Universal Credit but primarily because the single tax credit taper (the level at which benefit is withdrawn) at 41% is lower than the 63% taper under Universal Credit. This differs from tenants who face an aggregated taper from tax credits and Housing Benefit under legacy benefits.
    - Mixed-age couples, where one member of a couple is a pensioner and the other is working-age, are treated as pensioners, and so receive the higher pensioner needs allowance under legacy benefits. Under Universal Credit they are treated as working-age, with significantly reduced support. A mixed age couple with no additional needs would receive £1106/month under legacy benefits but £498.89/month under Universal Credit. Efforts to notify mixed-age couples of this change ahead of its introduction have been limited. Targeted and proactive support by councils has delivered better outcomes.
    - Students with disability or illness could previously receive means-tested ESA and Housing Benefit under legacy benefits. Under Universal Credit, provision exists for

students who cannot work to receive support. But in order to prove they are unable to work they need to undergo a Work Capability Assessment (WCA) which is provided as part of the Universal Credit claim. The rules do not allow students to make a Universal Credit claim and so they cannot undergo the WCA. This appears to be a regulatory oversight and needs correction.

- Jobseekers from the EEA are specifically barred from claiming Universal Credit. Some categories of jobseeker were previously able to claim legacy benefits (with the exception of Housing Benefit). This change was introduced by the Government to prevent perceived abuse of the benefits system. The UKs exit from the EU means that this is likely to be amended and new regulations governing migrants rights to Universal Credit will need to be introduced.
- Households affected by the benefit cap may see reduced support under Universal Credit. This is because the benefit cap applied solely to Housing Benefit under the legacy system. Under Universal Credit it can be applied to the full Universal Credit award and so reductions in support may be greater. The benefit cap means benefits, from a variety of sources, cannot exceed a given total. As households with children are more likely to receive high levels of benefit support, this housing type is the most likely to be affected by the cap. Policy in Practice has worked with a number of local authorities who have targeted interventions at households affected by the cap (described in this white paper) and found that this has helped people that are able to work, into work. This provides exemption from the cap. Those households still affected by the benefit cap tend to be households with barriers to work, such as caring responsibilities. As these households may be capped further if they move to Universal Credit, transitional protection limiting the impact of the cap could be considered.
- Claimants who are not able to work are the group most adversely affected financially by Universal Credit and may also be impacted by the transformation of DWP frontline staff into Work Coaches. For the most vulnerable claimants, effective face-to-face support may be necessary and require an understanding of a vast array of complex issues; illness (both mental and physical), caring responsibilities, addiction, domestic violence, and insecure housing. The specialisms gained under legacy benefits, for example through ESA staff's understanding of illness, and Housing Benefit staff's understanding of housing risk will be difficult to maintain under Universal Credit. Reduction in specialism has occurred at the same time as DWP is reducing frontline support staff and merging JCPs. To remedy this, the DWP could consider further investment in claimant support, either directly or through councils or third sector organisations with frontline staff focused on vulnerability.

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?

28. Universal Credit was introduced in part to be more responsive to people with flexible earnings or in multiple jobs. There has been a notable increase in the level of irregular, and often insecure income (a trend that started before the introduction of Universal Credit). This is manifested through increased levels of self-employment and a greater proportion of work characterised by part-time working and irregular hours. The number of households working within zero hour contracts remains low at under 3% of the workforce, however these forms of employment are particularly prevalent amongst low-income households.

29. Policy in Practice has undertaken data analysis using Housing Benefit and Council Tax Support data from a number of local authorities. This shows self-employment typically accounting for about 10% of the low-income cohort. This equates to approximately 1 in 5 low-income working households.

30. Self-employed households are amongst the most adversely affected by Universal Credit. The financial impact on self-employed households affected by the introduction of a notional income (the Minimum Income Floor) is given elsewhere in this submission. The rationale behind the Minimum Income Floor is that the objective of a benefits system is not to support businesses, and to reinforce the minimum wage. It is also arguable that households with significantly low income from self-employment would be better off moving into employment to gain greater financial stability. However, self-employment may be a first step into work. It can provide flexibility that makes work possible alongside illness, caring responsibilities, or other barriers to work. In deciding the level of conditionality, and therefore the level of notional income for the self-employed, the DWP takes barriers to work into account. Our work with support organisations indicates that the DWP rarely vary conditionality from that set out in guidance. In order to fully understand a claimant’s barriers to work the DWP would require a more flexible approach and the resources to allow more time to be spent with customers.

31. In many ways the impact of irregular hours of work is better served under Universal Credit than under legacy benefits. Universal Credit is designed to react to earnings over time without a need to change between in-work and out-of-work benefits, or to inform DWP of a change in earnings. However, as Universal Credit is paid monthly in arrears, payments of Universal Credit are offset by earnings in the prior assessment period. This means that a claimant could have minimal earned income in a month coinciding with low UC, because of higher earnings in the preceding month. This combination of low earnings and a low Universal Credit award can potentially cause hardship, particularly if higher earnings from the previous month have already been spent. This issue particularly affects households that do not have a work allowance, typically younger households without children who also have irregular earnings. For these households, any fluctuation in income, however small, has an impact on their next months Universal Credit award.

32. There are solutions to the lagging nature of Universal Credit payments for those with irregular earnings. Firstly, the restoration of a work allowance for all households, as in the original design for Universal Credit, would provide some dampening of effect. Secondly, it is possible to introduce a system of payment reconciliation that separates payments from the

calculations of the Universal Credit award. For example, an initial payment at the two week point (based on the estimated award) with reconciliation at the end of the month would limit the impact of the five week wait. Ongoing reconciliation each month, based on payments of Universal Credit and earnings year to date would also create stability and dampen the effect of fluctuating earnings.

How can Universal Credit better meet the lived experience of claimants?

33. This submission contains a number of suggestions for change that have the potential to improve the experience of Universal Credit for claimants. These have been informed by our own research or through our work with frontline organisations including local authorities, Housing Association, charities, and support agencies. Suggestions included in this submission are brought together below for ease of reference.

Increase simplification

34. Bring Council Tax Support, currently designed and administered by Councils, into Universal Credit. This would ensure all the main means-tested benefit support is under one roof. This would simplify application for benefits, increase take-up, and remove the postcode lottery that currently exists.

35. Remove the five-week wait for vulnerable households through a targeted grant and flexible claimant-centered support. This would be offered in addition to the interest-free advance loan, that could help some claimants combat the high cost of existing debt. Alongside this, the government should consider an extension to the two-week run on of DWP benefits to include Child Tax Credit to help families with children.

36. Explicitly recognise the role of those supporting claimants (e.g. support workers or medical professionals) and develop better communication processes, specifically to enable the claimant to give time-limited access to third-party advocates to support claims administration.

Incentivise work for all claimants

37. Restore the work allowance for claimants without children, ahead of work allowances for second earners.

38. Make changes to the mechanisms for eligibility to free school meals and free prescriptions in order to avoid a significant cliff-edge for work incentives. For example, by using the work allowance mechanism to partially fund school meals for all claimants of Universal Credit.

39. Make provision for supporting claimants with upfront childcare charges. For example, though partial payment from DWP to the childcare provider. This could be backed by a sufficiently funded Flexible Support Fund.

Mitigate reputational damage due to austerity measures

40. Recalibrate working-age benefits and LHA rates in line with inflation from 2016. This would bring greater fairness between working-age and pension-age support.

41. Consider extension of additional elements within Universal Credit to include greater support for those in receipt of disability benefits.

Increase support and the type of support available

42. Ensure that there is sufficient, specialised support for those that are vulnerable and distant from work. The loss of Universal Support, and the role of local authorities in supporting people on Universal Credit is a source of some regret. Effective support from central or local government would not only require additional funding but an acceptance that a work-focused regime will negatively impact those who, at least in the short-term, are unable to work.

Reduce the impact of irregular payments

43. Reinstate work allowances for all earners so that small changes in earnings for the lowest earners would not result in change in support. For those with earnings above the work allowance, the impact would be dampened.

44. Separate payments from the assessment of the Universal Credit award and consider methods to dampen the impact of irregular payments. For example, through a mechanism for partial early payment of the estimated award, followed by reconciliation of award at the end of the assessment period.

Conclusion

45. One benefit that is intended to provide support to all low-income households, with vastly varied circumstances, will also differ in how successfully it supports those different households.

46. For some claimants, the digital nature is preferable and many working households will be financially better off. For other claimants the digital nature, the 5-week wait, fluctuating level of awards, debt recovery levels, and lack of explicit consent around support, means the new system can be as problematic as the system it replaces.

47. There have been missed opportunities to further simplify the benefit system which could be amended by integration of council tax support and the removal of cliff-edges in other benefits such as free school meals and free prescriptions. Issues around the five-week wait, the approach to debts, fluctuating awards, and available support could all be overcome if the will, and resources, are there.

48. The introduction of Universal Credit alongside austerity measures has led to a lack of confidence in the new benefit - cuts to support are now associated with Universal Credit. This is a self-inflicted problem; a wholescale redesign of benefits cannot be implemented on the cheap. The erosion of benefit levels leaves claimants little room to manoeuver and cope with change. And this erosion of the safety net, and removal of discretionary crisis grants from the system, means there is no additional mechanism to support households who may be falling into crisis.

49. Universal Credit addresses some of the serious shortcomings of the legacy benefits system. Rollout is significantly advanced and a return to legacy systems is neither feasible nor desirable. Policy in Practice believes that Universal Credit has the potential to meet the needs of a diverse range of claimants and to become a benefit fit for the future. In this submission we have outlined a number of suggested improvements that would help Universal Credit achieve this.